JOINT COMMITTEE WORKSHOP

BEFORE THE

CALIFORNIA ENERGY RESOURCES CONSERVATION

AND DEVELOPMENT COMMISSION

In the Matter of:	)	
	)	Docket No.
Preparation of the 2007 Integrated	)	06-IEP-1B
Energy Policy Report (2007 IEPR)	)	
	)	
Transportation Energy Demand and	)	
Import Infrastructure Requirements	)	
_____	)	

PORT OF LOS ANGELES ADMINISTRATION BUILDING

POLA BOARD ROOM

425 SOUTH PALOS VERDES STREET

SAN PEDRO, CALIFORNIA

THURSDAY, JULY 12, 2007

10:00 A.M.

Reported by:
Troy Ray
Contract No. 150-07-002

COMMISSIONERS PRESENT

James Boyd, Presiding Member, Transportation Committee

Jackalyne Pfannenstiel, Chairperson, Presiding Member, IEPR Committee

John L. Geesman, Associate Member, IEPR Committee

Jeffrey D. Byron, Associate Member, Transportation Committee

STAFF PRESENT

Lorraine White, Program Manager

James Page

Malachi Weng-Gutierrez

Gordon Schremp

Robert McBride

Asish Gautam

ALSO PRESENT

Sam Emerson
Better World Group

Joe Sparano
Western States Petroleum Association

James Schepens
Oiltanking Houston, LP

David Wright
Plains All American Pipeline, LP

Elizabeth Warren
Futureports

David Matthewson
Port of Los Angeles

ALSO PRESENT

Dileep Sirur
Baker and O'Brien, Inc.

Martin L. Eskijian
California State Lands Commission
Marine Facilities Division

Jesse Marquez
Coalition for a Safe Environment

Dave Hackett
Stillwater Associates, LLC

Tom Politeo

Steve Faichney
Valero Refining, Wilmington

Janet Gunter

Kathleen Woodfield
San Pedro Peninsula Homeowners Coalition

Bry Myown
Long Beach Citizens for Utility Reform
Californians for Renewable Energy, Inc.

Regina Taylor

Mike Eaves
California Natural Gas Vehicle Coalition

I N D E X

I N D E X

P R O C E E D I N G S

10:00 a.m.

PRESIDING MEMBER PFANNENSTIEL: Good morning. I think we can get underway. Thank you all for joining us. This is the California Energy Commission Joint Workshop between the Integrated Energy Policy Report Committee and the Transportation Fuels Committee.

We're here at the Port of Los Angeles to discuss the transportation energy demand forecast. We have a very full day. This information that I think people have picked up on the side. We are planning to begin with some staff presentations and then some presentations by others that we want and encourage members of the public who are here to participate with us. There's a time at the end of the agenda where that will be clearly set out, but at the end of each staff presentation there will be an opportunity for questions and discussions.

So, let me make some introductions. I'm Jackie Pfannenstiel, the Chair of the California Energy Commission. To my right is Commissioner Jim Boyd, who is the Vice Chair of the Commission. To my left is Commissioner John Geesman, and to

his left, Commissioner Jeff Byron.

Commissioner Geesman and I form the Integrated Energy Policy Report Committee. And Commissioners Boyd and Byron form the Transportation Fuels Committee.

So, we came here together because this is an area of interest to all of us, both for formulating the report that will come out of the Integrated Energy Policy Report, and for the ongoing policy issues being considered by the Transportation Fuels Committee.

So, with that, I'll turn it over to Lorraine White for logistical help.

MS. WHITE: Thank you, Commissioner. Welcome, everyone. First of all we would like to extend our thanks to the Port for allowing us to use their facilities today.

We are encouraging folks to participate to the fullest in the discussions that we'll be having today regarding staff's assessment related to the transportation fuels system supplies, price, infrastructure issues.

To facilitate that discussion after each staff presentation we welcome questions and we invite those that have them to join us here at the

podium if you are attending in person. And then for those who are attending via our WebX service for those that could not actually be here in person, please use the "raise hand" function. That will be seen by staff. And at the appropriate time you will be allowed to ask your question or make your comment.

The day is fairly packed, so I won't belabor this any more. But I did want to put this in perspective with the rest of the IEPR proceeding.

The transportation-related and fuel-related assessments make up a significant portion of the evaluation that we do as part of the Integrated Energy Policy Report proceeding. Your input is very important to that. We're examining various aspects of the transportation fuel sector, its infrastructure and price, supplies, demand.

And in order to get it right and refine the work that we've done, it takes the input of the various stakeholders and members of the public. So you're encouraged to join us in this discussion.

Today we'll be hearing from various staff who have done the analysis. The agenda

clearly lays out the topics that we'll be covering.

We're going to be doing an overview first related to our assessment. We'll be discussing our evaluation of future price. We'll be looking at what we expect the future demand for these transportation fuels to be.

We'll also be looking at issues related to crude oil imports and the transportation fuel import issues. And the infrastructure that would be necessary to provide those services to California.

For those of you who are joining us, there are various handouts so that you can follow along in the presentations at the entrance there. We invite you to take those.

And with that, if there are no questions about the order of the day, we can go ahead and get started. In the afternoon we'll be focused on various presentations from the stakeholders. And then general comment at the very end.

All right. With that I'd like to introduce Jim Page, the staff lead on the transportation evaluation.

MR. PAGE: Thank you, Lorraine. And,

good morning, Commissioners and participants. I'd like to also thank Dave Matthewson and the staff here at the Port of L.A. for their help in setting up the technical aspects of this workshop. We obviously could not have done it without them.

And I'd also like to thank the staff and the management of the Fuels and Transportation Division for their help putting together the report. And one person in particular, Patty Renaldi, our clerical, without whose help none of this material would have been in your hands.

I'd like to just briefly review two presentations that most of the material I had at the May 8th workshop I'll be discussing the overall framework and approach very briefly. And the price forecasts. Much of this material is already on the record, but there are just a few points that have to be addressed, I think. Then we will get to the real heart of the material for today, which is the demand forecast and the import projections.

I'd also like to emphasize that these demand and import forecasts are preliminary. We're still taking in more information, additional information, all the time. Probably will change

these forecasts somewhat, but probably not the conclusions.

And I think I'll start with this schematic. It shows kind of how all the material links together. Arrayed across the top, fuel prices, economic, demographic information. Projections of vehicle attributes; vehicle counts from DMV; and survey data of consumers and fleet operators.

All this material feeds into four demand models, CALCARS light-duty vehicle model, freight transit aviation models, together with which other information on demand that collectively becomes the instate fuel demand forecast.

That, together with information about pipeline exports to other states, becomes the multistate regional demand that is demand that has to be supplied through California.

That demand plus information about refinery capacity becomes what's called the fuel import requirements. And likewise, information on refinery capacity in the California crude oil production forecasts is what we develop our crude oil import requirements from.

And not to steal the thunder too much

from Malachi and Gordon, who will be presenting the information in much more detail, as we go, I'd like to just make a few points about what I took from the report.

Firstly, that people, consumers, will simply not give up their mobility almost under any circumstances. So that means the VMT is going to grow regardless.

However, we are optimistic that given the options, in terms of vehicles, that people can reduce their demand for fuel. However, much of the future demand is driven by population and economic growth, so we are concerned about the ability to supply that fuel through imports and production instate.

(Pause.)

MR. PAGE: Most of these slides I've presented at the meeting. I know a lot of people here weren't there. I don't want to just repeat all of what I said at that time, but challenges and conditions that we are facing at this juncture in the fuels markets in California are obviously an uncertainty, a great deal of uncertainty about the future.

Part of the difficulties for this

forecast was the requirement to be consistent across the Energy Commission functions in terms of price forecasting, natural gas and electricity. We lack an inhouse world energy model, so we aren't able to project or predict prices from some instrument of our own. And also require annual average forecasts for our work.

(Pause.)

MR. PAGE: The approach I've chosen is to use the EIA oil price forecasts. Now, we received a great deal of pushback about this, the prices that they used. I think there's a perception that the EIA low-balls prices.

That actually is not the case. The EIA's probably in the upper half of all oil price forecasts. Historically for many many years they have been, if not average, certainly above average. I think they are the best available forecasts that we have for a variety of reasons.

If, in fact, this is an important criteria, they are the highest priced forecast that I know of at this point. They're the only forecast with three separate forecasts, a high, reference and low, which allows us to create a spread of price paths in the future for the other

work.

They're well documented; well reviewed. They regularly take their lumps from critics. They adapt, so this is a forecast that's well vetted. It's publicly available, and for free. Some forecasts, like the IEA, you have to buy. And it's well understood by other functions in the Commission, such as the natural gas forecasting unit and the electricity forecasting unit.

Second element of this is oil price is only one part of the fuel price forecast is use historical data on -- oil price in California fuel price relationships. We consulted with other offices on E85 and electric rates for the plug-in hybrids. Although that analysis still has not been conducted yet. The forecast horizon is 2030.

There several points I'd like to emphasize when I make this price forecast. We have -- there's several technical points. Indexing, averaging and adjusting for inflation. I think people need to keep this in mind when you analyze a price forecast.

Indexing, and particularly with oil prices, we're not talking about light sweet crude, we're talking about average price of crude. That

averaging versus volatility, that is we're not trying to predict seasonal or year-to-year variation in prices. This affects oil, but especially in fuel prices it's particularly salient.

And finally, I think we need to keep in mind the effects of adjusting for inflation, particularly in a long-term forecast.

Also like to make some points about how this forecast is used and interpreted. These are our benchmarks. We're not trying to make predictions. None of these three forecasts, the high, reference and low, are intended to be predictions. We're trying to map out the range of possibilities.

The oil prices are only one element in developing the fuel price forecast. The fuel price forecast is only one element of the demand forecast. The demand forecast is only one element, one variable among several in determining the fuel import and crude oil import forecasts.

The index that's being used for this forecast is the U.S. refinery acquisition cost, imported crude oil. It's not light sweet. It's about $5 to $7 less than you would get reading in

a newspaper the NYMEX or other crude oil markets, futures markets or forward markets.

This graph is a bar chart, shows recent spot prices for selected crude oils. Shows some of the variation between the different grades. And this chart for these bullets indicates some of the reasons why oil prices and fuel prices have been high both recently, and in recent years. High petroleum demand; geopolitics, in particular resource nationalism; rising project costs.

The latter two have constrained, I believe, investment in production in a variety of ways. And I think -- I would hope that participants today can speak to that more knowledgeably than I can.

This spring we've had numerous refinery outages, so that even in spite of comparatively low oil prices early in the year, we've had very high fuel prices. And then several other factors that have recently been at issue.

This compares the oil price forecast we're proposing to use during this round of forecasts to what we used in the 2005 IEPR. Clearly a large jump in EIA's expectations of fuel prices, or oil prices. And I think it serves our

objective to map out a wide range of possibilities for oil prices in the future; and consequently, fuel prices and demand.

This is just for informational purposes, this table. I won't go into any detail for fear I might never get out.

And just shows, sort of try to make my point, that the EIA does not, in my opinion, low-ball prices. These are reference case prices for EIA and several other forecasts that were available at the time of the annual energy outlook's release.

The two left bars or columns are EIA and IEA. They are average prices for imported oil. Whereas the other five are for light sweet. So you have to add $5 to $7 to the columns on the left to compare equally to the ones to the right of them. And obviously, especially in the long term, EIA and IEA are substantially higher. And this is for the reference case comparison.

This shows that the long-term EIA price forecast for oil is actually higher than their short term. The short-term forecast is more recent; it has more information, more recent information.

The NYMEX I put on there for comparative purposes. It's kind of hard to know when to pick a NYMEX futures. It's often suggested to use the NYMEX as a price forecasting vehicle. However, it changes. If you took the NYMEX from January, or if you took it from March, or currently, or if you take it three months from now you'll get very different numbers. So it's rather arbitrary.

But this is from about a week or so ago. The NYMEX is a light sweet crude. It's in nominal dollars, so when you look at a forward strip on NYMEX, you're seeing nominal dollars. So I've converted the nominal dollars to 2007 dollars, or real dollars, as economists call them.

And you see that it's declining. It's higher than the EIA reference case, slightly. However, it is declining. And one of the concerns I heard was that there was this dip in the EIA reference case oil price forecast which people didn't particularly like, many of them, presenters at various workshops.

However, the NYMEX dips, also. And if you follow it out long enough it would actually cross the EIA reference case price forecast down the line. If you assume that a NYMEX futures

should extend that far. Of course, it really doesn't. But in terms of trajectory we're seeing something that's not frankly terribly different from the EIA reference case in the long run.

ASSOCIATE MEMBER GEESMAN: But isn't the NYMEX market almost always in backwardation, so that downward sloping curve is a natural condition of that type of market?

MR. PAGE: This NYMEX strip that I used to graph this was actually about $70 level in nominal terms for as far as the eye could see, which I think is like ten years or something like that. So adjusting for inflation was what created the decline.

I didn't include it, but there is also a World Energy Council survey. I couldn't confirm it, but I believe that their index, if you will, was essentially a NYMEX index. They asked people whether they thought prices would be within a $60 to $80 range. With $70 as a midpoint, you can just put, say $10 above and $10 below bands on that NYMEX line with the same trajectory, remembering also that it's a light sweet crude oil, and it essentially follows the same track.

Their findings were that 65 percent of

their respondents, I think 50 energy executives, felt that prices would be within that band. Only 5 percent thought that it would be above that band; 30 percent that it would be below that band.

So, in a sense, I interpret that largely to be that their survey mirrors the NYMEX of the time. And that there's actually a slightly larger number of these executives who felt the price would actually be below that rather than above that band.

And, of course, the NYMEX provides neither a high nor a low. It's a single forecast into the future if you were going to use it as a forecast. There is no high and there is no low. Therefore, there's really no range, if you will, for analysis that we would need.

Commissioner Geesman, this graph is for you. I think you asked for this at our last workshop. How does the EIA oil price forecasts hold up over time in compared to actual prices.

And clearly there's two large groupings, two groupings of their forecasts, from prior to 2006 -- up to 2005 and then after that. A rather large jump that I think that mirrors the large jump in oil prices.

They've clearly changed their thinking. There is still the infamous dip, but it's substantially different than historical prices by EIA.

ASSOCIATE MEMBER GEESMAN: I think the next time you do this you should have a picture of the forecast that's examining the entrails of a goat to reveal their actual technique.

(Laughter.)

MR. PAGE: That's one of their methods.

(Laughter.)

MR. PAGE: But I have not done that. I thought since we were going that way I would provide this, also. These are older, what we call the delphi panel oil price forecasts.

And it shows at other times, other eras, forecasters have made other kinds of errors. Although I supposed in a sense every dog has its day, even the early forecasts are right sometime. And these forecasts are not really terribly different from EIA.

As I mentioned, EIA forecasts tend to be in the upper half of the community of forecasters, if you will. So, their forecasts would be slightly higher than these, but not too terribly

different. And obviously price forecasts that increase at very steep rates can get you dangerously off track. I think that's really a lesson to be learned from this.

PRESIDING MEMBER BOYD: Jim, isn't this an appropriate time to point out that one of the world's largest oil companies told us this week in a presentation they made to staff in Sacramento, they don't even try to make a single-point forecast anymore. They make multiple scenario forecasts, at best. And indicated that nobody can get forecasts right.

And I thought that was a very telling comment on the part of bp, I might as well say who it was, to make to us. Maybe it builds on Commissioner Geesman's comments about technologies, methodologies that we use.

But it just illustrates the point that the use of crystal balls is about as good as anything else these days in terms of trying to forecast where the world's going.

But not to dampen your presentation any more, I'll just leave that in the record.

MR. PAGE: I unfortunately missed bp's presentation, but it doesn't surprise me, those

comments. And clearly, to address uncertainty you cannot approach uncertainty with a straight-line forecast.

PRESIDING MEMBER BOYD: This was not a secret presentation; this is their public publication that they took the trouble to come all the way over from London to present to us, somehow or another recognizing that California represents some kind of significant market or something.

So, in any event, it proved to be interesting. And I see Malachi shaking his head positively, because he was there with me to hear it.

MR. PAGE: And just so we're clear on the difference between real, inflation-adjusted prices, and the nominal prices that you will actually read in trade journals or EIA reports, in future years, on this chart I've added nominal prices to the 2007 dollar prices.

Whereas, for instance, the high case reaches about $100 in 2007 dollars by 2030, the prices that EIA would be reporting, again annual average prices, evening out the seasonal and year-to-year volatility, would be $153 a barrel approximately.

For the reference case, whereas it's mid 50s in real dollars, it would be roughly 85 or thereabouts in the dollars of the day of the future. And similarly with the low case, approximately 50.

So the oil price gets a lot of attention, but it's again only one part of the calculation of fuel price expectations in the future, which is our real concern.

So we have forecasted oil prices. We add to that estimates of spreads or margins for fuel prices, both crude oil to RAC price. And RAC price to retail.

In this vintage of this forecast I've added, since we have new information about the predictive model changes, I've added some sense to the gallon price for those changes permitting E10 blending in gasoline.

And then finally, of course, state and federal excise taxes, and state sales taxes.

This bar chart shows the gasoline and diesel crude to RAC price margins. I'll probably end up slipping into the simpler term of refiner margins eventually, but I'll try to stick with the more appropriate accurate term.

PRESIDING MEMBER BOYD: Can you define margins for us in the audience, your -- the definition of margins that's used here?

MR. PAGE: Sure. It's the difference between an indexed crude oil price, refiner acquisition cost of crude oil. And the OPOS wholesale RAC price on a weekly basis averaged over the year. And then the difference for the RAC price to retail ex tax price margin, that would be the OPOS wholesale RAC price difference to the EIA's retail price for California, excluding taxes.

These are, in a sense, constructed values. They're indexes. They have no real working meaning in the market, but they do show differences in a common index over time, changes over time.

ASSOCIATE MEMBER BYRON: Mr. Page, would you also explain the pre phase three and post phase three?

MR. PAGE: That would be the changes that were made for gasoline to require the MTBE not be added to gasoline, was taken out of gasoline according to our Air Resources Board regulations.

And in fairness, there are other factors. I mean obviously margin, these crude to RAC price margins have increased substantially over time, and substantially post phase three.

In fairness, there are other factors that work on this over time. The net import status that is California becoming a net importer of fuels like gasoline and diesel, in the late '90s, raised margins during that period.

And other things have been operating post 2003. We've had several damaging tornadoes. That affects margins across the country and will affect California margins.

Also, other states are changing their formulations of gasoline. So they are competing with us for essential blend stocks.

So this can't all be dumped on phase three gasoline. But it was certainly an element of that.

I spoke before about the effect of averaging versus seasonal and year-to-year volatility. This shows the seasonal volatility of these margins over the years. There's almost -- we have a dip at the first of the year in almost every case. And then you have a spring spike

sometimes followed by a late summer spike; and then a fall decline. That's been the pattern.

So when we, going back to this chart, show the annual averages, that masks that volatility.

And this is the effect that volatility has on the actual retail prices. And first of the year, and then the spring spike. And often a late summer second wind spike. And followed by a late fall decline.

And I put this up here so people keep in mind when you think back of what you pay for gasoline, we tend to remember the high prices longer than we do the low prices. During this last I guess six or eight months we've seen a dollar's worth of variation on the retail prices.

And this is how I determined which values to use for these margins. I picked the two highest priced years for the high price case, the two highest margin years for the high price case. The three highest for the basecase. And all four of the most recent four years for the low price case. These being the years in which MTBE-free gasoline has been used in California.

And some further considerations because

obviously this is not all inclusive; and I don't know really all what's going to happen in the future. Astonishing as that might seem.

There will be no -- assumes no fuel reformulations other than the predictive model changes permitting E10 blending. That also does not assume in the effects of other states reformulating their gasoline, and whatever indirect effects that might have on our ability to purchase essential blend stocks. So that factor would lead to under-estimating.

The second bullet perhaps might lead to over-estimating. As I mentioned several times in various workshops, that we assume that constant real state excise taxes and federal excise taxes. Which means that the State Legislature or the federal government, Congress, have to raise the nominal -- excise taxes are nominal, so they actually have to raise them. And something which has not happened in at least 10, 12, 15 years, something like that. And which no one's really talking about doing.

So, if I assume in these forecasts, assume real constant excise taxes and it doesn't happen, that will mean that I will be over-

estimating to that degree.

And finally, we did not attempt to incorporate the effects of greenhouse gas reduction regulations. I think there's a variety of impacts that that could have; many of them raising prices obviously. But some of them possibly even lowering them.

For instance, if the AB-1493 rules were in effect now, or recent CAFE standards decline in effect now, as have many other rules, it could quite conceivably lower prices.

The result of all those steps are these prices for gasoline and diesel in three cases. And to show those effects in terms of not just real dollars, which are kind of an abstract concept to a lot of people, I put in also the nominal prices, which are what you would actually see at the pump.

So in the high case, whereas the 2030 price of 4.20 roughly, in real dollars would be I think 6.15 or somewhere thereabouts. That's the pump price you would see if you drive up in 2030.

Similarly for the reference case or the basecase, -- I misspoke -- for the high case it was $4 in real dollars, and 6, 2013 in nominal

dollars. The basecase would be roughly 2.75 in real dollars and 4.20 or thereabouts in actual pump prices. And the low case would be roughly 2.75 -- I'm sorry, 3.20 at the pump in nominal dollars.

And I just put this in. I don't always do what the EIA says. In this case you can actually derive from the EIA's forecast a California retail price forecast. And that's the blue line.

In this case, however, I have information. I have prices for wholesale prices -- oil prices and retail prices. And determined for myself whether I think that those margins are appropriate or not.

With that information I concluded that no, the EIA prices are way too low for retail gasoline prices. So in this case we went with our own analysis, and it yielded much higher prices.

ASSOCIATE MEMBER BYRON: Mr. Page, are the EIA forecasts national forecasts, or California regional?

MR. PAGE: They are national forecasts to which I assumed a historic difference. So California prices have historically been 25 cents,

say, more than national prices.

ASSOCIATE MEMBER BYRON: So you've adjusted the EIA --

MR. PAGE: So I adjusted the EIA national gasoline price forecast to California.

And this is just information, since we didn't, at this time, for this preliminary price forecast, get to alternative fuels, this will be roughly the prices we'll use for E85.

In the basecase we're assuming that ethanol's priced at the blending market level, whereas in the aggressive alternatives case we're assuming an equal or better perhaps, even, on a heat basis, or heat content basis.

And, again, this is something that's very much still in progress. We're still working with our electricity unit on determining some appropriate electricity rates for plug-in hybrids.

We started with those ranges we showed there, but we expect the rates we actually use for the modeling to be near the lower end of these ranges.

And with that, I conclude my comments. I welcome questions.

PRESIDING MEMBER PFANNENSTIEL:

Questions from the dais? Questions from the audience for Jim? There will be a chance later, but I just -- if there was anybody who had any burning questions on the presentation you just heard.

Okay, why don't we move on to Malachi.

MR. PAGE: One comment, Commissioner.

PRESIDING MEMBER PFANNENSTIEL: Yes, please.

MR. PAGE: I forgot to mention Lorraine asked, or I was told to mention this. This proceeding is being recorded. So, I feel it's fair to let everybody know that.

PRESIDING MEMBER PFANNENSTIEL: And it also is why people need to come up to the microphone if they have something to say, so we can catch them on the recording. Thank you.

MS. EMERSON: I'm not sure how this relates to your presentation, but in appendix B of the stock report it says that the -- oh, I'm sorry, I'm Sam Emerson from the Better World Group.

It says the Energy Commission's basecase starts at 2.92 per gallon for regular grade gasoline and 2.99 for diesel in 2007, and then

dips? I'm kind of confused as to why it would dip instead of increase.

MR. PAGE: That is a function in this forecast for the basecase of the oil price forecast declining in early years before increasing again.

So it's largely that because the margins are kept constant through the -- in real terms, real dollars throughout. That means they're rising, of course, in nominal terms. But in real terms, which those numbers are in 2007 dollars. So it is the oil price forecast that determines that.

MS. EMERSON: Okay, thank you.

PRESIDING MEMBER BOYD: And you heard what we had to say about the oil price forecast, so -- it's whomever's crystal ball.

ASSOCIATE MEMBER GEESMAN: But a forecast like that analogizes to something like pending peace in the Middle East, or Santa Claus discovered at every gas station, or a new giant field discovery somewhere. Implicitly there are qualitative assumptions embedded in that kind of forecast. It's very difficult teasing them out, but implicitly something wonderful has to happen

in order for that price trajectory to take place.

MR. PAGE: Correct. At least some good things and fewer bad things.

PRESIDING MEMBER BOYD: The human species continues. Eternal optimism in the future.

MR. PAGE: Thank you. I'd like to introduce Malachi Weng-Gutierrez.

Yes, we have WebX questions? Okay, thank you.

MR. WENG-GUTIERREZ: Good morning, Commissioners. My name is Malachi Weng-Gutierrez; and I work in the fuels and transportation division. I'll be discussing the preliminary transportation fuel demand forecast.

The following fuels were included in the preliminary forecast. We evaluated gasoline, diesel, ethanol in the low blend. And that's basically the blend that we are seeing now in gasoline.

The only adjustment we made was that in the years of 2010 to 2011 we increased the content of gasoline slightly to account for the E10 blend that we are assuming will occur in that timeframe. It's ramping up basically from 2010 to 2012. And

2012 is when we assume that the ethanol blend will be E10. And that's what we did for the entire forecast. And then the other fuel that we looked at was jet fuel.

For the preliminary forecast we did not include electricity or a high blend ethanol gasoline or natural gas. Those are not fuels that we incorporated into the demand forecast at this time. We do anticipate including those in the final.

The transportation forecast that we performed basically looked at four transportation sectors. We feel that these are representative of the entire transportation or most of the transportation that's seen in the state.

And those four areas basically are comprised of light-duty vehicles, which are, again, both private and commercial fleets; public transportation; freight movement in California, as well as the commercial aviation transportation sectors.

As I mentioned, at the May 8th workshop, these areas are primarily represented by four models that we have in our office. The CALCARS model represents the light-duty vehicles The

transit model obviously represents the public transportation. The freight model is representing freight movement. And the aviation model that we have represents commercial aviation.

These models were updated for this preliminary forecast. Many of the inputs to the models were updated, in particular transit was updated with many different transit agencies. We've included -- we've expanded the number of transit agencies included in that model.

Aviation and freight were both re-estimated and updated with input values. CALCARS, in particular, has a survey that's associated with it that measures consumer responses to not only prices, but makes and models of vehicles out that are available. And that was updated, as well, in this forecast.

And, again here's a number of the inputs that were used in the models that were updated. Fuel prices that Jim spoke to were updated. Demographic data and economic data for California were updated.

I say here partial survey results. Again, because at the time of our valuation and analysis we were only using a partial sample of

the entire survey. That survey has been completed already and they're re-estimating the coefficients for the models right now. We should be getting those shortly and we'll incorporate that in the final demand forecast.

Vehicle characteristics --

PRESIDING MEMBER PFANNENSTIEL: Excuse me, Malachi.

MR. WENG-GUTIERREZ: Sure.

PRESIDING MEMBER PFANNENSTIEL: In the survey results, does that include elasticities? Do you calculate the elasticities from that? Or where in these inputs do we see the elasticities?

MR. WENG-GUTIERREZ: We don't calculate explicitly the elasticities. But the survey results do indicate trends and people's preferences.

So, for instance, there was a -- it looked as though people responded negatively to diesel vehicles, and you can see that by the coefficients that were derived from the actual survey results.

So you can see trends like that. It doesn't explicitly pull out the elasticities response. That is something we could probably do

at the final results we get from the survey company.

And the other input that we updated that was fairly significant was the industrial sector activities. Specifically for the freight model we updated numerous industrial sectors, and as well as for the CALCARS model, which has a commercial element. So we've updated those industrial sectors to represent those areas and take into consideration the recent activity.

For the preliminary demand forecast these are the six cases that were evaluated that I've included in the report. They include both scenarios that involve both greenhouse gas standards being implemented, and not being implemented.

When I say greenhouse gas standard here I also am including the ZEV mandates. So those are incorporated into the analysis, as well. The contractor who provides us with the updated vehicle characteristics was provided all that information and took that into consideration when evaluating future offerings for vehicles in California.

As Jim said, we have three fuel price

cases that we evaluated. And those are represented here. It's the low fuel price, the base fuel price and the high fuel price.

Below that I've represented, there are six cells there that basically are looking at the demand cases that were evaluated in Gordon's analysis.

We have a high demand case, a base demand case, and a low demand case. And we selected those as being representative of the range of results that we obtained in our demand forecast.

So there are three that are posted there that have kind of italicized text there. Those we did not feel provided any additional information to the range that we were seeing as the result of our forecast. And therefore we didn't force Gordon to look at all of those forecast scenarios.

Again, the three that are in bold there we feel represent the range of values that we had in our forecast.

This slide shows the last five years the vehicle -- these are actual onroad vehicles registered in the DMV database. And, again, this is something that I showed at the May 8th

workshop.

Again just to remind everyone that we're seeing a significant, in the recent history, in the recent five years, we've seen a significant increase in basically hybrids, diesels and flex-fuels. Not so much in the gasoline vehicles being offered. Seems as though people are potentially being influenced by a concern about fuel economy, and are going towards vehicles that might have a little higher fuel economy than they've been used to.

ASSOCIATE MEMBER GEESMAN: That looks to be true on a percentage basis, but looking at the absolute numbers, aren't they all swamped by gasoline?

MR. WENG-GUTIERREZ: Quite right, yes. The percentages show just the increase from year to year. And, of course, the numbers for hybrids and diesels are fairly low compared to the gasoline numbers.

You'll see later on in the presentation that I do show for our forecast period, however, that they do become a significant part of the overall fleet composition by the end of the forecast period.

But, you are correct, that is correct.

PRESIDING MEMBER BOYD: Malachi, --

MR. WENG-GUTIERREZ: Yes.

PRESIDING MEMBER BOYD: -- excuse me, for the audience's edification, you flex-fuel column there is indicative of those vehicles that can use -- tolerate and use E85. And we can see here they're a tiny percentage of the California fleet. Thus don't constitute much of an increment of introducing an alternative fuel.

ASSOCIATE MEMBER GEESMAN: Well, and they don't use flex fuel --

MR. WENG-GUTIERREZ: That's right.

PRESIDING MEMBER BOYD: I should have said the possibility of using an alternative fuel.

MR. WENG-GUTIERREZ: Yes, that's exactly right. Again, they can use E85 higher blended fuels because the infrastructure really doesn't exist in California to support that alternative fuel. They are using gasoline now. So, anytime that you see flex fuel, you're more than not using gasoline instead of an E85 blend.

PRESIDING MEMBER BOYD: And for the air quality advocates in the audience, these cars are optimized for alcohol, so they don't perform as

well on gasoline as the rest of the vehicles in the fleet of the same make and model.

So, while the auto industry is getting benefits of a credit for CAFE, we energy people are getting nothing out of it, and the air quality people are getting nothing out of it.

MR. WENG-GUTIERREZ: Quite right. Again, that particular point does complicate how we will evaluate the introduction of E85, or how we would even forecast that. And that's something we'll resolve during the final forecast, how we choose to see how people use that E85 blended fuel over time.

That was a component of the survey and so we'll be using those results to see how people's preferences for fuels will be used in the model. So that's something we're going to have to definitely look at and evaluate.

As I just mentioned, actually this is the slide that shows the trend in fleet composition over time, over the forecast period. And we do see a growth in both diesel and hybrid populations to about 32 percent of the population by the end of the forecast period.

So, again, given -- this is, of course,

only for the base fuel price case with greenhouse gas regulations, so there is a push for the industry to adopt higher fuel economy vehicles in this situation.

PRESIDING MEMBER BOYD: Malachi, this is the total fleet, light- and heavy-duty?

MR. WENG-GUTIERREZ: This is the total -- this is the light duty, so this is actually anything under 10,000 pounds is what was included in this graph.

PRESIDING MEMBER BOYD: What I wanted to get to was your earlier comment, in the surveys you're seeing much interest in the consuming public in what I assume to be light-duty diesel, and yet you are growing the fraction here.

MR. WENG-GUTIERREZ: That's quite right. The negative response to the diesel vehicles as a fuel is counter-balanced by the high fuel prices and the efficiencies offered by that technology. And that's why we have a growth in that sector. It's basically people's response to their need for efficiencies over-weighs their dislike of the fuel, in general. So that's, I believe, why we're seeing that trend.

PRESIDING MEMBER BOYD: And we're

beginning to see a generation of people who never saw black smoke out of the diesel vehicles, and probably more tolerant of the subject of diesel.

MR. WENG-GUTIERREZ: That's probably right, too.

ASSOCIATE MEMBER GEESMAN: This is another one of those percentage charts. And I'm wondering if you've got those in actual numbers. I'm still troubled by your last chart. We can celebrate the increasing percentage of nongasoline or nondiesel vehicles, but the hard numbers I suspect suggest that the gasoline vehicles and growth in number of gasoline vehicles still swamp the numbers of nongasoline vehicles.

I say that sitting on a panel with four hybrid drivers. But could you provide this in actual numbers, if not today, then later for the record?

MR. WENG-GUTIERREZ: Absolutely. And, again, this is the total fleet composition so although these are percentages they do represent actual numbers. So the hybrids and diesels are increasing in the number of vehicles in the total fleet, itself. And they are significantly increasing, according to our forecast. But I'd be

happy to provide those numbers.

This is the fuel economy, the average fuel economy that was associated with the forecasts that we performed. In all situations it's basically growing. Significantly in the lowest demand case, which corresponds with the greenhouse gas standard implementation at the highest fuel price, that leads to the lowest demand and the highest fuel economy.

So, again, with prices as Jim has described earlier, as well as the policies that are pushing fuel economy, we see a growth in fuel economy, up to nearly 30 miles per gallon in the 2030 timeframe. And that's total fleet miles per gallon. So, again that's including hybrids and dieselization, as well.

In the low fuel price case, we see, which is all the way to the left, we see marginal increases in fuel economy, which is much more consistent with what we've seen in the recent history of fuel economy.

Fuel economy in the past has basically been driven by CAFE standards, and since we haven't had very much motion in the CAFE standards, they've been pretty constant at about

20.6, 20.35, right around in that range for the entire fleet. And that's what we see at the beginning.

And we only see marginal growth in fuel economies over the forecast period because of the low fuel price for gasoline and no policies that are changing that.

PRESIDING MEMBER BOYD: This I would note in front of a body of people, at least some of the members, who, in 2003 said if California is going to survive economically in its transportation fuel needs, we'd need to see almost a doubling of fuel economy.

Yet, since that time we've watched the tragedy and comedy of the debates in Washington which finally maybe this year some progress will be made. It's still not as much as we said in 2003 was going to be necessary. And that it remains to be seen how successful we're going to be.

Because, as we recall, we predicated our transportation fuel future on a need to improve vehicle technology such that we almost doubled fuel economy, as well as the introduction of alternative fuels, as well as the reduction of VMT

to be brought through better land use and transportation work at the local, regional, state and federal levels.

So it's not a very good track record that we're forecasting for the future, but it's the truth, unfortunately.

ASSOCIATE MEMBER GEESMAN: Well, I would note that it wasn't too long after he assumed office that the most famous Hummer driver in the world endorsed that recommendation in a letter to Congress suggesting the CAFE standards be doubled.

MR. WENG-GUTIERREZ: And in our aggressive case that we will be including in our final forecast we have included the assumption that the 35-mile-per-gallon CAFE standard that was recently discussed and passed the Senate, would be implemented. And we wanted to see the result of that in addition to the introduction of plug-in hybrids and higher blended ethanol fuels, as well, so that will be included in the aggressive case.

For VMT, in all cases we see a growth in VMT. And this is for light-duty vehicles only. For the medium- and heavy-duty sectors we're also seeing growth in activities. But for light duty it's definitely an increase over time over the

forecast period.

PRESIDING MEMBER PFANNENSTIEL: Malachi, this looks a bit like there's some kind of rebound effect when you compare this with the average fleet fuel economy table that you showed before. It looks like as the fuel economy is improved, people are driving more. That seems to be the implication. Is that how that's modeled?

MR. WENG-GUTIERREZ: That was my -- yes, that's what I got from it. The fuel economy increases over time. People move in that direction, it's cheaper to drive and --

PRESIDING MEMBER PFANNENSTIEL: It's not really a good result --

MR. WENG-GUTIERREZ: But it's not and --

PRESIDING MEMBER PFANNENSTIEL: -- from a policy standpoint.

MR. WENG-GUTIERREZ: And actually this, again, is a preliminary forecast. I looked into this and ran the numbers again over the weekend. And the trend is slightly different for vehicle miles traveled.

So you see, even in the case where you have an increase in price, VMT is not outweighing that. So, it --

PRESIDING MEMBER PFANNENSTIEL: Right.

MR. WENG-GUTIERREZ: -- doesn't look -- the trends are slightly different in the numbers that I just recently ran. And those will be included in the final forecast.

But, --

PRESIDING MEMBER PFANNENSTIEL: You might want to go back to some of the elasticity work that we haven't done yet, either.

MR. WENG-GUTIERREZ: Sure.

PRESIDING MEMBER PFANNENSTIEL: Because it just seems to me that we're constantly then battling an uphill battle, even with increased fuel efficiency, where we're worsening our case on a greenhouse gas world with increased VMT.

MR. WENG-GUTIERREZ: Sure.

ASSOCIATE MEMBER GEESMAN: Well, that was consistent with the analysis done for the University of California Energy Institute, Dan Sperling's group, at UC Davis that was published earlier this year, suggesting that short-term elasticities recently had been running about a third the level from the 1970s.

And that many of them, the models that carry forward similar assumption from the 1970s as

to what demand elasticities would actually be.

Now, the Sperling group was careful to distinguish from long-term elasticities which are quite a bit more difficult to calculate. But I think this is an important chart for policy purposes, as it implicates just what our infrastructure requirements are likely to be, even given some fairly aggressive assumptions about the mileage standards.

PRESIDING MEMBER PFANNENSTIEL: And that's exactly right. And this is long term; this is the time that we're going to have to turn this around. So it cries out for some creative policy initiatives here. Thank you.

PRESIDING MEMBER BOYD: it's reminiscent of and reflects the debate that Commissioner Geesman and I were subjected to in 2003 over this elasticity which is called the rebound effect, which nobody could really come to an agreement on what that effect is. And to this day it's still troublesome.

ASSOCIATE MEMBER GEESMAN: Well, if I can, in at least part, preempt the argument that I expect we'll hear from our friend, Joe Sparano, later today, that is if you're going to cut back

on demand of my product, how can my industry be expected to invest in new infrastructure.

Look at this chart. Under the best of assumptions there is no discernible negative influence on vehicle miles traveled.

MR. WENG-GUTIERREZ: Definitely, in the revised numbers that I've done over the weekend, I mean VMT's increasing over time. There's no doubt about it. So, and that, again, is a factor of population growth, income growth and --

PRESIDING MEMBER PFANNENSTIEL: And land use decisions.

MR. WENG-GUTIERREZ: -- exactly, and continued land use decisions. So, I know recently we had a workshop on land use and there was a mention of an 11 percent decrease in VMT if we were to go to a smarter growth plan overall for the state. And that could potentially impact it. That's not represented here in our forecast. We are assuming consistent land uses, you know, with what we've seen in the recent past. So there may still be hope.

And, again, these are preliminary gasoline VMTs, or forecasted VMTs for the total; this includes, then, the heavier duty sectors, so

transient and freight and that sort of thing were included in these numbers.

And this is the trend of the light-duty VMT with the total VMT, which includes, again, the heavier, medium heavier duty VMT values. And, again, we see consistent growth in that VMT over time, over the forecast period.

For gasoline demand, however, we see that in our lowest demand cases we do see a decrease in the demand for gasoline, itself. Farthest to the right we have the high fuel price case where, in fact, we are seeing an implementation of a greenhouse gas standard. And that's leading to an actual decrease in the amount of gasoline that is demanded in California from current levels.

And it's marginally decreased in our base fuel price case. And then in our highest demand case, or the low fuel price case all the way to the left, we actually see a significant increase in the demand for gasoline in California.

Again, that range of demands is what we're interested in seeing. And that's kind of what we want to see, the base fuel price case there obviously looks like marginal changes. The

high- and low-demand cases show a range of possible potential values, given our assumptions.

This chart is basically the data that was in the previous table. It shows that onroad gasoline demand, the highest demand numbers there, the blue and the pink numbers, basically show fairly flat and then increasing demand over time. And this is, again, just for gasoline.

The other cases, or probably the most interesting point that I got from this, was that under a high-price case with no greenhouse gas regulations being implemented, you do see a decrease in gasoline demand that is similar to those with the greenhouse gas standards and ZEV mandates being implemented. So, that, I thought was interesting.

And the other thing is that under low- and base-fuel-price cases, given greenhouse gas standards being implemented, you see marginal differences between those two cases. Meaning that with the moderate to low fuel price values, you're not going to -- basically the greenhouse gas standards, any implementation of policy is outweighing the response of consumers to price.

And it's only when you go to a higher

price fuel price case that you actually see a response in addition to the greenhouse gas standards being implemented.

To get a sense of what the differences are in the non-greenhouse gas and the greenhouse gas kind of standards being implemented, this graph kind of shows the magnitude of change for gasoline and diesel.

In the top two lines here in this graph you see, again for the base fuel price case, relatively moderate growth in demand for the non-greenhouse gas case. And then if you were to implement a greenhouse gas policy, you see a decrease of approximately 14 percent or so in demand. And that's what's indicated there by the pink line.

At the bottom of the chart here you see that there's increasing demand for diesel vehicles, or diesel fuels, over the entire forecast period. And, again, that coincides with the dieselization of the fleet, as well as the hybridization of the fleet, that interest in obtaining more fuel efficient vehicles over that timeframe.

This is the combined gas and diesel fuel

demand. It's in gasoline gallon equivalents. And it again shows that in our highest demand case where we are under low fuel prices cases and new greenhouse gas regulations being implemented, demand grows pretty significantly over the forecast period.

Certainly it is dampened slightly, there's a slight change in the rate of change there, around 2012. But, again, it's a significant growth throughout the forecast period.

The other values all seem to be lower. And in our lowest demand case it does seem as though there's a decrease slightly from our peak of demand.

PRESIDING MEMBER BOYD: I'm just going to mention at this juncture that -- and I know the low carbon fuel standard concept is new and introduced fairly late in our evaluation process. And remains yet to be established by the Air Resources Board. They have 18, or slightly around 18 months to do that.

But in some of the scenario-thinking that's been going on of late, it's almost conceivable that we could see an increase in the demand for diesel fuel if there could be a market

for more diesel, using vehicles as an effort to meet the 10 percent reduction in CO2 equivalent for CO2 emissions from fuels.

So, we're going to start having to deal with, as a Commission, the multiple objectives we're trying to carry out as government, with regard to the objectives of reducing our demand -- well, of providing sufficient amounts at reasonable prices of transportation fuel to our populace in order to not undercut our economy; to meet our objectives with regard to the introduction of alternative fuels.

Our goals, which have already been established, our objectives to introduce a certain degrees of biofuels. And now meet the low carbon fuel standard.

The interaction between all of those is quite fascinating, quite interesting, and is probably why I'm sitting here for a second term on this Commission, just to see where we go in this future.

But it conceivably could change some of these forecasts, but we don't know that yet. And I just wanted to put that fact on the table to further complicate this already incredibly

complicated scenario or vision of what our future is. This adds some new wrinkles to it, so I'm glad you're so young and can deal with this for so long.

ASSOCIATE MEMBER GEESMAN: I didn't hear petroleum displacement on your list.

PRESIDING MEMBER BOYD: Oh, I meant to say it first. Thank you for pointing it out. Maybe I felt Joe's eyes looking at me.

Joe, we're not picking on you now.

ASSOCIATE MEMBER GEESMAN: Speak for yourself.

(Laughter.)

MR. WENG-GUTIERREZ: Well, certainly recent work with AB-32 and all the low carbon fuel work is certainly setting a pace. And it's going to be interesting to see how they model all that and how that all turns out.

There was a question recently to look at per capita values associated with demand. And so I put together a few slides to address that.

The blue line to the left is basically historic values. These are values that look as though they increase slightly in 2000 and 2001, and then kind of level off towards 2003 through

2004 to our base year, which is 2005.

So it does look as though on a per capita basis there's kind of a flattening of demand on a per capita basis. For our forecasts for gasoline only, again, this is a graph of only gasoline, we do see a decrease in the overall per capita demand for gasoline. And, again, I think that's partially because of hybridization and dieselization of the fleet, itself.

This again reflects the dieselization of the fleet, and that is the per capita increase in demand of diesel. Again, this is all assuming that light-duty diesel vehicles will be introduced into the market. And that obviously the conditions and technologies associated with that, those vehicles are adopted by consumers. And this then leads to this per capita increase in diesel demand for California.

This is the combined per capita demand on a gasoline-gallon-equivalent basis per year. And, again, I guess in our high fuel price case there's moderate per capita demand; that's almost decreasing slightly. But, again, because of our population increase over the forecast period we do see an overall increase in our demand for fuels.

And that's somewhat reflected here. This is basically looking at fuels on a clean fuel basis. It's basically the volumes associated with fuels coming into California, or the fuel demand of California.

And in all cases, even our low demand case, we do see increasing demand. Obviously most significantly in our high demand case where there's low fuel prices and no greenhouse gas policies are implemented to stem that demand, or dampen the demand. It's almost linear.

And just for comparison purposes I did want to take the 2005 numbers and kind of compare them to the 2007, what the results were for these preliminary numbers.

And the only thing that I took away from this is that in the long run certainly we see lower demand than we projected in the past, 2005. In the short term it looks as though demand will be higher in all of our -- well, in our lowest demand cases, in the short term they have a higher demand than what we projected in 2005, in the short term, again.

So if you look at 2010 or 2011 you see that for 2007 the base fuel price and the high

fuel price cases with greenhouse gas regulations being implemented show a higher demand than was presented in the 2005 IEPR.

But, again, at the end of the forecast period we do see a lower demand than was projected in 2005. And, again, that, I think, is indicative of the higher fuel prices that we are projecting in this round. So those are pretty significant changes in the fuel prices that we're seeing -- that we're using today, and we weren't using in 2005. And I think that's a big part of what we're seeing here.

In summary, there's just a few items I wanted to kind of point out. I think fuel economy is raising throughout almost all of our -- actually for all of our scenarios that we looked at. We're seeing a rising fuel economy; only moderately in our low demand -- or our high demand case, sorry.

And this fuel economy growth is partially because of hybridization and the light duty dieselization of the fleet. And that is significant.

Again, in all of our cases VMT is increasing, and that's because of our population

and our economy is growing. Although our economy, for our forecast period, at least, population growth and economic growth is not as steep as in the last 20 years. So that's something that I also pointed out in the writeup.

We see diesel demand increasing over the forecast period significantly, and again, that's dieselization of the fleet. Volumes of transportation fuels again are increasing throughout the forecast period, which I think Gordon will talk about the ramifications of that increase and volume needs.

And then the per capita transportation fuel demand is decreasing over the forecast period. And that partially is because of the increased fuel economy of the vehicles.

So, with that, I'd be happy to take any questions.

PRESIDING MEMBER PFANNENSTIEL: Questions from the audience. Mr. Sparano, your opportunity.

MR. SPARANO: Joe Sparano, Western States Petroleum Association. Good morning, Commissioners. I'm going to do something I'm not noted for, and that is show some restraint and

simply ask my question.

And that is on slide on page 8, Malachi, the slide that shows the combined gasoline and diesel light duty transportation fuel demand for all fuel price cases. That one.

Just a question as to the makeup of the forecast. It seems like in the last year or so everyone has been focused on the pretty significant increase in the price of gasoline at the pump. And through that period data from DOE shows, I think, a six-tenths of a percent reduction year over year from '06 to '05, and perhaps flat in the first quarter of '07 versus '06. Pretty significant 30 percent increase in price.

And here, I think in the outyears, if I'm reading this right, it's something like 15 or 16 percent difference between the basecase and the high price case. And I'm just trying to understand better how you can have that kind of expectation of response on demand to price where we haven't seen it. I just don't understand and would like to hear the rationale behind it. Thank you.

MR. WENG-GUTIERREZ: Well, that's a good

question. In the recent history, again I think the explanation of that goes to the assumptions made in our forecast. And, again, what we haven't seen in the historical sense is the number of makes and models of hybrid vehicles being offered, the number of diesel vehicles being offered in the light duty sector. The implementation of regulations that may impact fuel economy and demand overall.

And those are assumptions that we used in some of our demand cases that lead to that decrease in demand. It may very well come to pass that diesel vehicles can't make it into the market. And, you know,there are no other policies that deal with fuel economy, standards being implemented or emission standards being regulated.

And in those cases we would see a higher demand than we're seeing here. But, again, we're making some assumptions about those policies being implemented and those trends coming to fruition.

PRESIDING MEMBER PFANNENSTIEL: Further questions here? Thank you, Malachi.

MR. WENG-GUTIERREZ: You're welcome.

PRESIDING MEMBER PFANNENSTIEL: Move on.

MR. WENG-GUTIERREZ: I think next -- oh, we're going to go to WebX and if there are any questions on WebX.

So if there are no questions on WebX, I think I'll hand the mike over to Gordon Schremp.

MR. SCHREMP: Good morning. Welcome, Commissioners, members of the audience. My name is Gordon Schremp; I'm the Senior Fuels Specialist in the fuels and transportation division at the California Energy Commission.

This morning, and then a bit into the afternoon, I'll be talking about our results of our crude oil import forecast and our -- port forecast for transportation fuels. And by that we mean gasoline, diesel and jet fuel.

I'll also be talking about increased use of ethanol and what we see for incremental imports in that arena, as well.

The three topics I'll be covering this morning regarding crude oil. Some of these slides I'll be going through rather briefly. You do have them in your package. Almost all this material is a result of what's in the report. So you have this information in different places, and I just want to make sure we keep on schedule. We have a

lot of presenters and members of the public that need to make comment.

California is part of a regional demand center. We look at the three main states of California, Nevada and Arizona as a supply center. This is especially true for transportation fuels; not true for crude oil.

But we're only trying to point out that the majority of the imports are water-borne and they do come into southern California. Sixty percent for crude oil; about 80 percent for transportation and fuel products.

And why we are looking at crude oil and why is there a concern about potential constraints on our existing infrastructure. It's because crude oil is declining. And that's not a phenomena that's existing in California, it's basically nationwide and some other parts of the world, as well.

So this graphic shows that since 1986 production has declined in California by about 39 percent; 60 percent in Alaska; and 35 percent in the rest of the United States.

A little bit longer term perspective. Crude oil did peak in 1985 at 424 million barrels

of production in California. And it's continuing to decline. So one of the charges, as part of our exercise to develop a forecast for imports, is to look at this decline rate and look out or crystal ball out to the future of what kind of decline scenario we might see.

So, based on how long of a period of time you use, looking back in our recent history, you can come up with two different scenarios for future decline of California crude oil production.

And this exercise was intended to bound a range of decline in California production and people could come up with different estimates. And we're not assuming any major breakthrough in technology that may flatten out these decline rates on a temporary basis at this point in time.

So the higher rate is the more near term, over 3 percent per year decline continuing off into the future over the forecast period. And if you go back further in time you see a more gradual decline rate.

And in part, that 1991 through 2006 average does cover a period of time where nearshore, offshore production did climb a bit, and then peak, and then we get into decline. So

we believe that masks the decline rate a bit. And so it's maybe, we think, more appropriate to use this more near-term higher decline rate. But we do cover both.

So, as this decline has been going on since 1985, you have seen a gradual increase in the water-borne imports. We really don't receive any crude oil by rail, and there is no crude oil pipeline that connects California to a crude oil supply, say in Texas. It doesn't exist.

So, as you can see from this graphic, the foreign, or the bottom bars, have been increasing rather dramatically as Alaska crude oil is displaced. As I mentioned, Alaska crude oil is declining at a rate of 60 percent from 1986.

So how do we estimate additional crude oil imports? Well, the two main factors or drivers in our forecast estimate have to do with refinery distillation capacity. That's the ability of California refiners to process crude oil. Will they process the same amount of crude oil in 2015 or more? Well, we believe there will be continued increase in that process capability.

The other big driver is, as I already mentioned, is how fast is California crude oil

production continuing to decline.

So those are the two drivers that will result in a range of import forecasts for crude oil.

This graphic, this first graphic is sort of the low amount, low side of our forecast. And there are two aspects of it. The lower bar is the amount of crude oil being produced in California, and that's with a low decline rate. And the upper bar dotted line is the capacity to process crude oil at the existing California refineries, increasing at a rate of about one-half of a percent per year. And we refer to that as refinery creep. And Joe, he loves that phrase.

The next slide is change your assumptions, increase the refinery creep rate from that half-percent per year to 1 percent per year. And then the decline rate, increase that from 2 percent per year decline rate in California production to 3.4. And those two lines open up and you have additional amounts of crude oil imports.

So taking all of that information on those two lines, we've constructed a table that people can sort of pick and choose. Do they think

that distillation capacity growth rate of .41 percent is appropriate; or do they think a 1 percent is appropriate.

And depending on which one you select and how aggressively crude oil is declining or not, you end up with a rather broad range of crude oil import calculations.

But no matter what you do examine there is going to be growth. In the short term we see a growth rate of 20 to 34 percent from 2005 import levels. And between 37 and 65 percent by 2025. So longer term, of course you're going to get these trends continue to get higher amount of crude oil imports.

We also wanted to reiterate that a majority of these crude oil imports we assume will continue to be southern California, here in the San Pedro Bay, the Ports of Los Angeles and Long Beach.

Now, this graphic for the low case of imports is only meant to illustrate the two different drivers and the relative volumes of additional crude oil. So the bottom chart, the low crude oil decline, is the amount of crude oil that would have to be replaced because it's no

longer being produced in California.

So regardless of what the refiners do regarding their distillation capacity, either growing or remaining stable as it is at 2006 levels, we would still see an increase in crude oil imports under low scenario, as well as the high scenario.

But this refinery creep does increase those imports and rather significantly. Almost to an equivalent level in the longer term period. So that does have an effect on the amount of crude oil that we're assuming is imported in California.

Shifting focus down to this import market in southern California, once again the 60 percent. This is just to break down the numbers and the relative increase compared to 2005, about 36 percent and about 70 percent, 40 to 70 percent higher in 2025. The longer you go out, the higher increase you have.

So, how do you get that crude oil into California. Well, we assume it's marine vessel and then how many additional marine vessels might that be. Well, that depends on the relative size of the vessel bringing in the crude oil.

So, on this graphic we display the size

of the cargo, if you will. Three different sizes; about 440,000 barrel capacity; 700,000 and 2 million.

Well, the 440 is about the average discharge out of a cargo in 2006. Now, keep in mind that some of the marine vessels that do come in here, they'll actually discharge a portion of their cargo at one terminal, then move to another and discharge some more crude oil.

They'll also have a crude oil vessel that's too large to fit in some of these ports offshore. They'll transfer some of the cargo to another smaller vessel. That will come ashore.

So looking just at the 2006 data it masks the actual size of the vessels that are truly bringing cargo from the Persian Gulf or Africa or South America. So they're actually a little bit bigger.

But looking forward in terms of the incremental volumes coming in, we've assumed those two different sized vessels. One's referred to an Afromax. It's a rating system. And it's about 700,000 barrels in size. And the largest on this chart, the higher bar, is 2 million barrels; and that's what we refer to as a very large crude

carrier or VLCC.

So, as you change the assumption on the size of the cargo, you will change the number of additional marine vessel visits. And that's the axis on the far right.

So, bigger vessels, lower number of incremental vessels coming in. Smaller vessels, smaller cargo sized greater vessels.

Now, why this is important is because a vessel coming into a berth requires approximately the same amount of time to conduct paperwork, approach the berth, and conduct paperwork and leave the berth afterwards.

So if you're bringing in two vessels for one, it's not just the time dealing with the vessel, you're extending the time to do the paperwork. So it's part of a congestion issue. So it's more efficient to bring in a bigger vessel in temps of time per unit discharge on the cargo, as well as cost per barrel. So it's much more efficient.

And there also is a relative impact on the amount of air emissions, air pollution coming from these vessels. And I'll talk about that in my second presentation about the relative

contribution to air pollution from marine tankers, both crude oil and petroleum products.

Bringing in more crude oil will also require an expansion of existing crude oil storage capacity. And this chart breaks that estimate into two pieces.

One level we assume an increase in crude oil storage capacity similar to the project at Pier 400 or berth 408 that's been proposed. And that's about 4 million barrels of capacity. And going farther in the future, and increasing the amount of crude oil imports, you see a higher projection.

Now, if, in fact, the storage tanks are not utilized as efficiently as proposed in that project, a slower throughput, you need more storage tanks, same amount of volume, then you increase the amount of incremental storage capacity needed in California, and primarily down in southern California.

Now, that is getting into an area that can be considered a bit problematic because of the lack of spare -- capacity to build such tanks and such infrastructure. And we'll get into that in a second presentation.

Now, there is, like any forecasts, as Malachi and Jim Page were pointing out, there are various areas of uncertainty. No forecast is perfect and no forecast will be accurate. Of course not.

But there are some significant potential uncertainty regarding our crude oil import forecast, and that has to do with one piece of legislation passed, AB-32, directed to reducing greenhouse gas emissions from specific types of stationary sources, cement kilns, power plants and refineries.

So, to the extent that refineries actually alter the quantity of crude oil being processed, i.e., decline, we would see a change in the amount of imports that we have forecast. Obviously they'd be lower.

And on the other hand our import forecast for transportation fuels would be higher because you're not producing as many fuels in California. So that's one area of uncertainty.

And I mentioned earlier we have not assumed any new emerging technology developments that may arrest, temporarily arrest that or halt that crude oil decline in California. And so

whether that's increased injection of CO2, and whether you have more far-reach horizontal drilling out into some of these offshore fields that are right now off limits to drilling offshore, you can actually drill into some of those from onshore.

So these are other areas that may, in fact, change that estimate of future crude oil production plan.

We don't stop here. We're not quite done with our analysis. The first primary step is to get a range of incremental crude oil imports into California. Well, that's a good first step.

But now what will happen to the existing infrastructure? How much can that existing infrastructure take up, continue to import additional imports of crude oil? And we believe there is some spare capacity, but we are in the process of more accurately quantifying what sort of spare throughput capacities these various crude oil import terminals will have in California.

And we will incorporate this information through the rest of this quarter into our final report that we publish as part of this activity. So stand by, we will have some additional

information.

And this is quite important because if there is not very much spare capacity then you really accelerate the time period whereby you want to have an expansion project, you know, come online.

But if there's a modest or significant amount of spare capacity then that buys you some additional time, assuming the crude oil production declines that we have and assuming the refinery creep rates that we have.

I won't really go into these summary of staff findings except, I think, for the bottom one, and I'll talk about this, on the second page. And that regardless of the changes in demand for transportation fuels, especially in the near mid term, there's not much of an appreciable impact on crude oil imports.

And the reason I say that is even though there's an aggressive load demand for gasoline, which actually shows gasoline demand declining from today, we're still seeing growth in demand for diesel and jet fuel.

And what refiners would do is they would back off on the existing imports coming into

California. That would occur first until the point where you get to where California would even consider exporting barrels of gasoline outside the state via marine vessels. So that could occur over a longer period of time, especially if demand for gasoline does decline rather significantly.

So I'd be happy to take any questions from the Commissioners or the audience.

ASSOCIATE MEMBER BYRON: Mr. Schremp, if you could go back to your summary slides, I think it's about bullet 3 on the first one there. Industry must build at least one large crude oil import facility in southern California before 2015. Are there any planned?

MR. SCHREMP: There is a proposal before the Port of Los Angeles to do a crude oil import facility at Pier 400. It's referred to as berth 408. I think that's Pacific -- Dave, help me out?

MR. WRIGHT: It's Pacific Los Angeles Marine Terminal LS -- LSC.

MR. SCHREMP: Well, Dave will get up here later and he'll put that on the record. But there is a proposal, but the draft EIR has not yet been released by the Port.

But we do anticipate -- we understand

that that draft EIR will be coming out later this year, hopefully in the fall sometime. And it's possible maybe Mr. Matthewson, when he makes his comments, maybe he can address the timing when that release will happen.

But beyond that we're not aware of any other crude oil import facility being considered. And it makes sense for down here. We believe one large facility such as being proposed would be sufficient to meet our needs through 2015 and probably into 2020.

Under a higher demand forecast for crude oil import, we believe southern California would require two such facilities by 2025. But not by 2015.

ASSOCIATE MEMBER BYRON: Okay, but we'll get into that some more later on today then?

MR. SCHREMP: Yes.

ASSOCIATE MEMBER BYRON: Thank you.

PRESIDING MEMBER GEESMAN: Gordon, do you want to move to your next summary slide. The third bullet in the reference to an adequate supply of transportation fuels for California consumers and businesses.

We got into this a bit in 2005. You

guys still include in your forecast, though, a continue role of California infrastructure providing transportation fuels to Nevada and Arizona, do you not?

MR. SCHREMP: That is correct. And I will be covering that aspect of our transportation fuel import forecast.

PRESIDING MEMBER GEESMAN: Okay.

PRESIDING MEMBER PFANNENSTIEL: Other questions here? Any questions from the audience? Please come up to the microphone and identify yourself.

MR. SCHEPENS: I'm Jim Schepens with Oiltanking. Gordon, did you do any correlation in terms of the size tankers with the quality of crudes that are needed by the southern California refineries?

MR. SCHREMP: No, we did not, Jim, in terms of identifying the type of crude oil and the foreign source of where we think that crude oil would originate.

If we had gone deeper into the analysis and done that, then that would lend one to probably more accurate representation of what we believe the tanker size would be.

For example, if the majority of that crude oil we believe would be coming out of the Persian Gulf, we would expect to see a larger crude oil vessel. If it's coming out of Venezuela we would expect to see a vessel that's smaller, that's able to get through the Panama Canal. So, no, we did not do that more in-depth level analysis to make a determination.

MR. SCHEPENS: An associated question. In talking to the refiners down here do they see moving away from any sour crudes which they currently have a diet for, and moving toward the Mideast medium and lighter crudes? Or do you think in the future they'll continue to seek out the heavy sour crudes?

MR. SCHREMP: Well, certainly they're in a position currently to take in a diet of a more viscous and a higher sulfur crude oil. We understand they're putting an additional desulfurization capacity not on the crude oil side, but on the gasoline blend stock to meet the revised predictive model modifications.

Further, we understand that the majority of incremental crude oil coming online around the world is of a heavier higher sulfur level versus

something that would be more desirable; if you're trying to meet low sulfur levels, a lower sulfur crude oil.

So, they're already in that position. They seek out crude oils that are similar because that minimizes the amount of modifications they may have to make to the refinery if they're significantly changing their diet.

But certainly they're are always, I'm sure, examining what could help in terms of their operating costs and their emissions relative to the type of crude oil, as well as the desired product slate. Because you change your crude oil quality significantly enough, you'll change the yields of gasoline, diesel and jet fuels.

MR. SCHEPENS: Finally, did you factor in at all Canadian crude?

MR. SCHREMP: No, we did not. Once again, we were not identifying a specific source. We do understand Canadian crude is one of the largest growing sources in North America. And we understand that there have been proposals to build a pipeline from the crude oil production center to the west coast.

That would open up the possibility of

bringing crude oil down to California refineries from Canada, but we believe most of that crude oil in that type of pipeline project would actually go to Asia, the lion's share of that.

PRESIDING MEMBER PFANNENSTIEL: Yes, Joe.

MR. SPARANO: Joe Sparano with Western States Petroleum Association.

Gordon, on the slide that showed the tanker sizes, and the number of additional tanker visits, just a couple observations. And I'm not even sure there's a question in here, but something that perhaps the staff will consider as you go from draft report to final report.

Vessels of 2 million barrel cargo size, I think that's roughly 300,000 deadweight tons. They're going to draw 60, 80, 90 feet. I'm not an expert. There may be folks in the audience who are more familiar with that.

But, number one, I'm not sure how they get into southern California ports, or if there's more than one berth, if any, that can handle that. Which would make a significant impact on the mix of the type of ships that could come in. Which further would make a significant impact on whether

or not we can do business.

Because right now port policies are not geared toward accepting and embracing additional tanker traffic and additional storage capacity to handle the materials either coming in or coming out, but mostly the import side. I know you're going to touch on products later. That's one point.

The second one is if you bring in vessels of that size, and I'm guessing that those are not the size that you use when you determine that we're okay on tankage with the Pier 400 project up until 2015, if I said that right. I'm guessing you're not talking about 2 million barrel cargos being the basecase for that, is that correct?

MR. SCHREMP: That is incorrect. Actually the information available for the Pier 400 project is that the project can accommodate up to 2 million barrel VLCC vessels. The anticipation is in the earlier years that a smaller size Afromax vessel of 700,000 barrels would be the more typical vessel.

But the storage capacity of 4 million barrels of additional cargo at that facility

should be sufficient to offload a VLC in a timely manner.

So, the facility can handle such a large vessel. And I just want to point out that our assumption was this type of facility would be constructed by 2015. And that's just an assumption going in.

So change that assumption, and yes, you're right, there really aren't those kinds of facilities to handle those large of vessels right now.

The berth 121 in Long Beach can handle fairly large size vessels, but that berth is well utilized and little spare capacity.

MR. SPARANO: Thank you, Gordon, that's a good and fair answer. The other observation I have is that as you do your report and get closer to final, you might consider, if you haven't already, investigating with people who know the shipping business well, if those larger tankers are in the basecase for deliveries. They tend to pump at astronomically higher rates, over 100,000 barrels an hour. And the shoreside facility just have to be in the type of condition to receive them. I'm confident, if anything Dave Wright has

done, it will be up to snuff.

But that's one facility. That's the only one on the boards that we know of. And it still hasn't escaped the EIR preliminary process. So just a cautionary note. If that's the basecase there may be something you want to look at as you go forward.

Thank you.

PRESIDING MEMBER GEESMAN: Joe, you inferred that use of VLCCs may conflict with current policies at the port. Could you elaborate on that?

MR. SPARANO: Well, no, the issues -- I was raising several issues. One, VLCCs, by the nature of the name, very large crude carriers, they tend to draw a lot of water. They need draft. And my sense is that somewhere between 60 and 90 feet. I think there's only one spot currently in the harbor that could come even close to handling that.

If you can't build the new terminal quickly, which is the port policy issue, John, --

PRESIDING MEMBER GEESMAN: Okay.

MR. SPARANO: -- then you have a problem because you have to lighter that ship. And as

soon as you lighter the ship, you change the whole complexion of the delivery process with many more smaller vessels having to pump off.

So that was my point. I appreciate the question.

ASSOCIATE MEMBER BYRON: Mr. Sparano, may I ask a question, as well? John --

PRESIDING MEMBER GEESMAN: Just a quick one for Gordon. And that is capability of the Chevron facility at El Segundo to accommodate these larger tankers?

MR. SCHREMP: We understand that that facility is not offloading VLCCs. That there's some shuttling occurring to the more -- buoy. But as part of our ongoing analysis we will be looking site-specific at current capabilities, as well as spare ability, to move additional crude oil through before they have to expand.

ASSOCIATE MEMBER BYRON: Earlier in Gordon's presentation he mentioned an uncertainty issue, AB-32 could defer or eliminate distillation expansion plans. And I was just wondering if you'd seen anything amongst your members that's deterring any expansion at this point.

MR. SPARANO: The only thing I've seen

that appears to be deterring expansion is the Attorney General's protest on at least one of our projects that could bring 25,000 barrels a day of additional gasoline to the Bay Area very quickly.

And you mentioned AB-32, that's the basis for the Attorney General's protest. And I think that project is now hung up in the protest loop.

So, --

PRESIDING MEMBER GEESMAN: Is this the Conoco project?

MR. SPARANO: Yes, sir. In the Bay Area, the Conoco Rodeo facility that has, I think, gone far into and pretty much accomplished what it needed to in the EIR review by the lead agency, which was the Planning Commission of the county, Contra Costa County.

So that becomes an issue for refiners. The distillation issue is kind of separate. You don't necessarily make gasoline by adding crude. You make gasoline by adding some downstream conversion facility, which is what ConocoPhillips intends to do.

And there are three other projects in the Bay Area, all of which are geared at either

making more gasoline or making as much or more gasoline from lower quality crudes, using additional hydrogen.

So all of that activity is underway. I don't think it adds to distillation capacity much. And you don't do that unless you are very confident, as a refiner, generically speaking, that you can sell the diesel and the jet fuel and petroleum coke and heavy fuel oil that also must be made. And the heavier the crude slate the more of that material you get.

So, in an environment where we're looking at reducing petroleum demand 20 percent, Commissioner Geesman's first shot across the bow early this morning, it is a little more difficult for facility owners to sell the concept of expanding distillation capacity when the product slate they would project to make, at whatever pricing forecast they have, is impaired by a desire to eliminate some of those products.

Thank you.

ASSOCIATE MEMBER BYRON: We're also glad that you did find us down here in Long Beach.

(Laughter.)

PRESIDING MEMBER GEESMAN: This ain't

Long Beach, Jeff.

(Laughter.)

ASSOCIATE MEMBER BYRON: I'm sorry, Los Angeles.

PRESIDING MEMBER PFANNENSTIEL: Yes, sir.

PRESIDING MEMBER GEESMAN: San Pedro.

MR. WRIGHT: My name is David Wright; I'm with Plains All American Pipeline, the sponsor of this project that we were just talking about. I just wanted to clarify several points that have been made.

I'm planning later today to do a little presentation about our project and some of the issues that you've seen in the report.

We also have a representative from Baker and O'Brien that's going to make a presentation later today. They're experts on refinery design and crude supplies and Dileep will talk about a number of the issues that have come up.

But generally the water depth that berth 408 has already been dredged to 81 feet. And in the case of the project that we're considering, there's a 10 percent under-keel limitation from a safety standpoint. So that any ship that comes in

will be 10 percent less than that depth, which is roughly 74 feet.

And that puts you in the range of tankers that are about 375,000 deadweight tons. And then depending on the weight of the crude, that will dictate what the size of the cargo is.

But for our project we generally consider 2 million barrels as being kind of the upper limit of the cargos.

The issue that you get into, we've study crude supply very significantly; we've met with many many different people, the refiners that are actually ultimately going to deal with the issue, and that are ultimately going to have to arrange for supply from this project.

What we see happening is that the types of supplies that will come in will evolve over time. In the early years they'll be smaller ships that would potentially come from Mexico and Ecuador, mixed with some larger ships that will come from the Persian Gulf. There's also expectations there'll be quite a lot of oil coming from West Africa. There's oil already coming in to the West Coast from Brazil.

So you truly have to design a project

that can have flexibility over time so that as crude production around the world changes, that you have the ability to bring that crude in. Because we're looking at a 30-year timeframe for this particular project.

We've designed or plan to design the tanks in such a way that we can offload tankers at a very high rate of capacity, at about 100,000 barrels an hour. Allow a large ship like a VLCC turnaround in slightly over a day. And that would bring in roughly two days supply of oil demand to meet the L.A. Basin demand today. That demand's going to grow over time.

So, later today, between myself and Dileep, we'll answer a number of these questions. But we've done extensive work. We've been working on this project for over five years. And there's an incredible amount of complexities that go into the design of a facility like this.

We have limitations that are placed on a project like this by the Air Quality District, in terms of emission caps. And there's all sorts of mitigation factors that have to be accounted for from meeting the demands of the Port's clean air action plan.

And then just the fuel issues of what kind of fuels the refineries are going to produce.

So there's a number of factors and we'll try to get into those a little later today.

Thank you.

PRESIDING MEMBER PFANNENSTIEL: Thank you, sir. Other questions? Anybody on WebX?

No questions. Okay, Gordon, why don't you continue then.

MR. SCHREMP: With some technological assistance. Thank you, Bob.

Well, I'll change gears now and I will talk to our forecast for additional amounts of gasoline, diesel and jet fuel we expect to come into California over the forecast period, as well as an increased quantity of alternative fuels, both in the form of increased amounts of ethanol as well as increased amounts of biofuels.

A long list of subjects I'm going to cover, but I'll cover them rather briefly and make sure we get out of here on time.

Transportation fuels in California. Currently, or in 2006, about 24 billion gallons of demand. Two-thirds gasoline, including the ethanol portion, and about one-third diesel and

jet fuel.

The alternative fuels are mostly ethanol at this point in time. There is a small amount of biodiesel, propane, natural gas. We do expect to see that biodiesel component increase through state goals, mandates, low carbon fuel standard, $1 a gallon incentive, things of that nature. So biofuels will certainly be on the increase.

Ethanol, also, will be on the increase due to changes in the predictive model, the desire to use more renewable fuels, the low carbon fuel standard, similar drivers. We expect to see more ethanol. And that's up to a 10 percent level in all California gasoline.

Then going beyond that to maybe a 20 percent level; obviously it will go to much higher. And I'll talk about that in a few minutes.

So, Malachi spoke about the demand forecast. And they're merciful and only had three scenarios that I had to look at, rather than six, so greatly appreciate that.

So, that's one of the drivers into coming up with a multistate regional demand. And why we care about a multistate regional demand is

because, as was mentioned earlier, California supplies the lion's share of the products in Nevada and Arizona. Six percent in Arizona; almost 100 percent in Nevada.

So is their demand changing? And if it does, do we expect to see incremental shipments from California going to those neighboring states. The answer is yes and yes. So that will affect our marine import infrastructure. Because some of those imports will be coming through California facilities, primarily in southern California. So that's one aspect at looking at the neighboring state demand and then calculating incremental pipeline shipments to those two destinations.

Another aspect of our analysis is the refinery process capacity projections, that is the refinery creep. And Joe is right. There are two ways to increase amount of gas, let's say you're producing it in a refinery.

You can process more crude oil, but when you do that you're going to be producing more components for gasoline, diesel and jet fuel. But you can also increase some of those other process units, an alkylation unit, fluidized catalytic cracking unit.

Recently we've seen increases in excess of half a percent per year for those type of process unit capacities. But, for this analysis we have not assumed a growth rate in those other process unit capacities beyond that of the distillation capacity growth rates.

What we are assuming is that the additional crude oil being processed will be going to a sufficiently large enough downstream processing unit capacity to handle everything that's coming out of the distillation capacity units. And we think the projections will merit that out.

So, taking the increase in pipeline exports -- excuse me -- demand, I get a regional demand for California and Arizona, Nevada. I look at how much additional supply I can expect under a range of assumptions from our own refineries here in California. And then basically what's left over is incremental volume I need to import to satiate consumer demand.

And then that will result in what kind of changes in the infrastructure do we anticipate, or would be necessary.

So once again this is an incremental

import forecast. Figure out how much more barrels are coming into California; and primarily about 80 percent into southern California. And we're looking at gasoline, diesel and jet fuel, the primary fuels at this point in time, but also cover the alternative fuels.

So, I won't belabor the demand forecast. You do see that there's a change depending on the fuel price assumption and the fuel economy assumptions. So they result in both the low and the high range of incremental -- or demand in California.

The capacity growth rate, as I mentioned, we're looking at a growth rate for ability to process crude oil at about half a percent per year to 1 percent per year.

And there's another aspect to processing crude oil. We look at the capacity of the refinery, or sort of the theoretical capacity to receive crude oil and process it, but they don't achieve that high level. They're not 100 percent utilization rate. They're at a lower rate. And why is that?

Because they perform routine maintenance, you know, about once a year; and

larger maintenance projects under crude oil units, so the crude unit isn't operating for a period of time, 30, 45 days. Factor that in as well as some unplanned refinery maintenance due to, say, a fire in a crude unit. Then you're going to end up with a utilization rate of around 90 percent.

So we assume, going forward, that utilization rate will remain relatively stable and not get up to 95, 98, 99 percent over the forecast period.

So when you process that additional crude oil you're going to be producing components that are ultimately going to be used to make fuels. So this is the ratio of the output of the primary California fuel producing refineries in 2006. And as you see, about half of it is gasoline components, mostly California gasoline in the biggest chunk here. And then nonCalifornia gasoline, both Arizona and Nevada, as well as a little export to Oregon and Mexico on occasion, and Canada. Very small amounts. British Columbia.

And then the remaining portion is -- remaining quarter is diesels or distillates, both in onroad diesel, carb diesel and EPA diesel for

export. Then jet fuel about 12 percent. And the remaining 15 percent is these other components that naturally come out of refinery. Residual fuel oil, asphalt, distilled gas, petroleum coke, things of that nature.

So, moving forward over the forecast period we assume that every additional barrel that's processes is going to be converted to this ratio of components. So we're happy to take, you know, input on that assumption. But that's the assumption throughout the forecast period.

Now, you'll see when I look at the incremental imports, the change, especially when we talk about specific fuels. You'll see incremental imports of gasoline with negative numbers. What does that mean? Well, we're going to be importing less gasoline in the future than we do today. Why is that? That's Malachi's low demand forecast, a decline in gasoline. So we actually see negative imports; that would mean an export.

Now, would refiners do that, keep merrily processing more crude oil and turning it into components that they actually have to export somewhere to find a market? Probably not.

They'll do some other things. But for the sake of our forecast we have assumed this ratio going forward and we can talk about some of the impacts of that in just a few minutes.

So, the other part is that the neighboring states of Nevada, Arizona, they are connected by pipeline to California refining centers. These pipelines operate one way. They don't push back and forth. They only go to Arizona, and they only go to Nevada.

This map does not show the pipeline from the Bay Area refineries up into Reno, Sparks/Reno. So there's a line that goes up there, as well. So, you basically have two pipelines going into Las Vegas, one for jet fuel, one for petroleum products.

You have one pipeline going to Phoenix. And then from the West Texas refineries you have a couple pipelines going to Tucson, and then you can actually continue pumping into Phoenix from the east. This is referred to in the report as the east line. And the west side is the west line. And this is a CalNev pipeline going from California to Nevada, CalNev.

So, we looked at the demand in these two

neighboring states, the growth in the demand, and then we calculated, well, how much of that incremental demand growth will be met by exports. Because as you can see in Arizona, you can supply product to that state through two different sources, west Texas and California.

Then as part of our analysis we also look at some sensitivity. Some, off of our main analysis, change in assumption. Why don't you build a refinery in Arizona? What would that do? Okay, that would change our import forecast definitely.

What if you build a pipeline from Utah down to Las Vegas, such as has been proposed or announced on Monday by Holly Energy Partners. Yes, that would take some of the pressure off of incremental supply coming out of California to go to those facilities. So those all matter, but they weren't assumed to take place over the forecast period. But we do look at them and we do look at the impact on our import forecast.

That's all the information I've already covered on the relative volumes. And this rather busy table, maybe not as busy as some of Malachi's tables, but I'm showing you both demand in

Arizona; and I'll show you the demand in Nevada. Yes, identical tables, slightly different numbers.

The relative demand levels are -- these are for all fuels, 270,000 barrels a day in 06. And we grow that demand due to population growth. We believe there's a strong correlation between population growth and gasoline and diesel demand in both Arizona and Nevada. So that's what we used to estimate growth in those two markets.

And we have a range of population forecasts. The state, they do their own population demand forecast, as does California. And the Census Bureau essentially has a forecast. The Census Bureau's forecast is a little bit lower in the near term, but almost the same in the long term as the two states.

So, taking that information we see a population, which are going to be the same as these numbers, 19 to 25 percent higher in 2015 than 06, and longer term 51 percent higher in Arizona.

And also want to point out that what is increasing at a faster rate is jet fuel. Jet fuel demand growth is going up at even greater rates. About 32 percent higher in 2015 and about 81

percent higher in 2025. So growing faster than population. It's business activity. Especially in Nevada, it's tourism activity that's growing at a faster rate.

Now, you'll note I only have one number, one estimate for demand for jet fuel, and that's because we used the Federal Aviation Authority's forecast. And they have basically a forecast of what they call enplanements, people getting on planes and then leaving a specific destination. So, we use those forecasts for Nevada, McCarren Airport, Reno Airport and we use them in Arizona for Phoenix and Tucson. And that's basically, you know, over 95, 96 percent of the total enplanements in those two states.

As I say the table looks the same, but the numbers are slightly different. They use about 100,000 barrels less in Nevada, but the demand is growing a bit faster; in the long term, 30 percent and 64 percent by 2025. And the jet fuel is a little bit higher, 35 rather than 31 and 87 rather than 81 in the longer term.

So, a little bit faster demand growth for jet fuel and that at McCarren Airport is certainly more of a, you know, tourism destination

in Las Vegas.

Okay, so now I have a demand forecast and I have to figure out, okay, well, will all of that incremental demand be met just from California. Well, no, it won't. It'll be met from, for Nevada we do assume that, yes, most of that's met. There's a small amount of supply that comes out of the Utah refineries that's trucked into northeastern Nevada. We assume that's small, about 4 or 5 percent, does continue off into the future.

For Arizona we assume that the ratio of products coming from the west line remains the same through the forecast period. Now, so you can argue about that. Well, move more products from the east; I change my import forecast. Move more from the west, I change my import forecast. But that's our assumption throughout the forecast period.

And for the jet fuel and diesel fuel you really have to move the majority of it from the west into Arizona because that Phoenix airport is much larger in terms of jet fuel volume and it's going to want to come in that west line.

Now, what can significantly change this

obviously is that new pipeline I mentioned, if that's built from Utah down to Las Vegas, that's about 60,000 barrels a day.

So, if you look up here and you say, well, in 2006 what was going to Nevada, 156,000 barrels a day. Well, that's a significant chunk that wouldn't have to come from California. So that'd be very beneficial to supply here. Not only more barrels for local consumers, but take some of the pressure off of the infrastructure.

Same thing here. High case. The growth numbers are greater. You're looking at 27 to 33 percent greater exports from California. And about 79 to 100 percent greater by 2025. So longer term, higher quantity.

So, now take all of that together. Take Malachi's demand forecast, take our pipeline export forecast, take our refinery creating more supply in California and you end up with this incremental amount of imports under the different scenarios.

So, low case here, 2015/2025, and up to the high case on the far right. So you see ranges anywhere from an additional 87,000 barrels a day having to go through our existing infrastructure,

all the way up to 288,000 barrels a day by 2015. So a rather significant increase.

And longer term you're seeing a lower number; not a higher, 67,000 barrels a day. And why is that? Gasoline demand declining rather significantly from 06. So you're actually seeing far less imports of gasoline, and even net export shift, if you will, which we believe will not happen. And then diesel and jet fuel demand continue to grow, so you actually have positive.

So, a takeaway from this, even under very high prices, relatively speaking, for gasoline, tremendously improved fuel economy standards, and these low demands, you still see under any scenario incremental demand growth for imports into California, and primarily through southern California.

So no matter what happens, and this is assuming a shift from E6 to E10 in all of our gasoline. So all that's embodied in this. So, it's incremental growth in imports under even the most conservative assumptions.

Shifting gears to ethanol. This chart shows four different periods. The far left, the purple is 2006, last year. About 951 million

gallons consumed. And going up to 2012, and that's when Malachi mentioned we believe California will fully transition to using 10 percent ethanol in all of its gasoline by that year.

There could be some higher levels than 6 percent in the interim years, 2010, 2011, as companies try to achieve early adoption or maybe early credits for low carbon fuel standards. So we'll see how all that plays out. It's uncertain at this point in time because those rules have not been clearly defined as of yet. But should be in about 18 months.

So, going out further in time you see that, well, that's interesting. 2015, 2025 the demand drops. Well, that's the low demand forecast for gasoline. Even to the basecase you see gasoline demand does drop from these levels up here. So ethanol will marginally decrease, the demand for it.

And then only under the high case scenario do you see barely any growth at all in the amount of ethanol. So, it's almost flat line. So it's either a flat or slightly declining. But we will expect to see a bump up from where we are

today.

Now, this assumes we go up to a 10 percent level and we remain there. Well, if you increase to say 20 percent of ethanol on average in the gasoline you'll see a significant increase in the amount of ethanol demand and ethanol imports. And I'll talk about that in just a minute.

Or talk about that -- talk about the imports right now for ethanol. In -- like I said, we had 951 million gallons of demand in 06, and as you can see from this chart up here, 906 million gallons was imported. So we are reliant almost entirely on outside sources. But that's changing.

Our current ethanol production capability is about 76 million gallons a year. We expect that to rise to about 231 million gallons, or about, you know, a quarter or more of our needs, by 2010, 2011. And those are plants currently under construction. These are planned so they're actually currently under construction. So we are seeing a growth in indigenous ethanol production in California. But not to the point where we're self sufficient.

Longer term, there are abilities

possibly to increase the amount of ethanol from sugar cane in the Imperial Valley. Maybe longer term cellulosic sources. So ethanol construction we don't expect will stop in California, it will continue. But the exact amount and timing of those other sources for ethanol are uncertain at this point in time.

So, taking that into account you can actually see that the incremental imports can actually go up to you know, 122 in 2012, but then actually be a negative 100 million gallons in 2025 under the low case. That's because of the decline in gasoline demand case. But actually can increase to almost 670 million gallons for the high case.

So that's a very broad range. And this is primarily an import that will come in via railcar. Most of the ethanol comes in now, I think about 10 percent in 2006 came in via marine vessel. That's certainly a possibility, but with the large growth in domestic ethanol production capability in the midwest, I mean very significant, we expect there's going to be a glut of ethanol that will reflect in a lower price relative to gasoline. So we expect that those

imports will come in from the midwest for the foreseeable near midterm.

Longer term. Brazil, some other places, can be a player and bring cargos into here, but we'll -- it's mostly by rail. So this is really something that we think will appreciably affect the marine infrastructure.

I mentioned a new refinery in Arizona. Clean Fuels in Arizona project; 150,000 barrels a day. You build that, significantly reduce the amount of exports from California. And I have a little table on that.

I think Mr. Sparano mentioned the refinery expansion in Rodeo. We did a sensitivity of looking at three incremental supply projects. And that's about 58,000 barrels a day in total. And that does, in fact, reduce imports somewhat.

And then we changed our assumption on how that refinery creep either occurs or doesn't. And so keeping that flat line from '06 levels, and what you see is crude oil imports will not be as great, but the demand for transportation fuels will go up rather significantly.

Further still, if one were to say decrease crude oil process to say, 1990 levels,

one possible way of complying with AB-32, probably an unlikely scenario, but you see, you know, a tremendous, a 334 percent by 2025 increase in imports. So that's rather a lot.

I mentioned increasing amount of alternative fuels. Double the amount of ethanol, the top row here. And this is the actual change in imports. And it's hard to say, well, what were the imports to begin with.

So, we go to this slide and it's easier. You see that same table is at the bottom here. But, I just wanted -- this is a summary of those other sensitivities, changed the assumption in the analysis, I changed my results.

So, under the refinery projects you see that that refinery would result in a rather significant decrease relative to these levels up here. These are the lower levels. Actually a net export phenomenon there.

Include those projects Joe was mentioning and you see that the import numbers do drop down in the low case rather significantly; longer term, not so much. And then don't have refinery creep at all. Keep the processing crude oil the same as it is today essentially. And the

import numbers increase, and rather significantly. In the high case, 420,000 barrels a day rather than 288.

And then these just show that the alternative fuels don't have say biodiesel and B5 or B20 doesn't have an appreciable impact on the demand forecast for imports; 87 up here in the basecase and 83, 71. Somewhat of an impact.

And we also want to point out that alternative fuels, even though they decrease gas and diesel and jet fuel coming in through the marine infrastructure, they would have to come in from somewhere.

If it's ethanol, we believe by rail. So not on the marine side. But biodiesel can be in the form of say, palm oil coming into the ports to produce biofuels locally.

So, changing the liquids, you're changing the mix of liquids. And right now there really isn't an infrastructure to bring in that kind of alternative fuel at this time, especially in a large quantity.

Ongoing analysis, the same thing. We're proposing to continue doing crude oil. We're going to look at these facilities in temps of what

spare capacity they have. And that will be important to determine timing of projects and ultimate size of that.

I won't belabor the point about infrastructure and containers. This is in the report in previous documentation. Just to point out that there's a lot of competition down here for very little spare land. And containers are growing at a greater pace than transportation fuels. And they both need, to a degree, certain amount of footprint to expand their operations.

And that's something that's been going on for a number of years down here. It does result in some local resistance to petroleum projects, both safety, you know, increased truck traffic, emissions and things like that. So it's a natural outcome of that.

And per direction from Commissioner Geesman, we took a look at the emissions from ocean-going vessels, and this is from the Starcrest Consulting Group's report in July of 04, the data.

And we wanted to see, okay, well, how much are tankers contributing, you know, currently, and then moving forward. And you can

see this graphic just illustrates the amount of total emissions in the port is the yellow bars. And the blue is the ocean-going vessels.

So, are those all tankers? No, they're not. They're mostly majority of container ships, followed by cruise ships, followed by tankers, the little purple bar at the end there. So they're a smaller fraction of the ocean-going vessels.

And then you say, okay, well, let's look at those emissions as from all sources. What percentage do they represent. And the green tankers, and once again, those are both for crude oil importation as well as diesel, gasoline and jet fuel.

They're a relatively smaller contributor to emissions, 1 to 8 percent. And CO 1 percent; and 8 percent SO2. And that's because of the fuel they're burning, has much higher sulfur.

Well, do they contribute more because there's a lot more of them? Well, no. Well, actually -- well, yeah, actually container ships are, they're about six-to-one to the tankers at the top of the chart there. So greater number. Well, you go, well, maybe that's why they have more emissions.

But then when you look on a per-visit basis, container ships are actually greater than that of the tankers on a per-trip basis. So not only are they six-to-one in terms of the number of visits, but on a per-visit basis there are more emissions coming out of each of those events.

And moving forward, you know, with people looking at growth rates of 8 to 10 percent on inbound containers, into the San Pedro Harbor, we don't see that kind of growth rate in marine vessels for petroleum products. And especially if, in fact, you use the larger vessels. Then you can reduce the number of vessel trips when you go to a VLCC.

I won't cover the summary slides. It's just repeating. I'll spend just a couple minutes on my last two slides here.

The first recommendation slide is basically suggesting a continued and expanded outreach. We're just trying to get information out to the public as part of various proceedings.

We'd also like to see some additional interaction from other agencies and entities regarding our Integrated Energy Policy Report process, which is, in fact, why we are down here.

We think most of the imports are coming down here and it gives people an opportunity locally to come and make contact.

The last two recommendations we just highlighted in this PowerPoint have to do with there's a lease renewal process. There's a lease holder or, say the oil companies and the people that have a lease and negotiate with the oil companies, are in Port of Los Angeles and the Port of Long Beach.

Northern California it's a different structure. It's basically the companies would do a lease renewal with say the State Lands Commission. So it's a different structure down here. And these recommendations are something that were in our 2005 IEPR, and we've seen nothing that would cause us to change, from the staff's perspective, these recommendations now.

But we should recognize that we're not saying that leases aren't being renewed so that it just goes away. What we're actually seeing is that reluctance by the port to renew a lease in an existing location. The port, over recent years and longer term plan, is to try to relocate some of that petroleum activity to a different

location. Whether that's on Terminal Island or some other location.

So, you know, a sort of lease renewal process can involve actually a relocation. And our concern is that the relocation, if it were to occur, occurs and is ready to go before the current activity ceases. Because those facilities are fully utilized to make sure we've got an adequate supply of fuel.

And the final recommendation is the marine oil terminal engineering maintenance standards, that's basically bringing all the wharfs up to higher standards; earthquake, fire, et cetera. And the State Lands Commission, I believe, will be talking about that later today, giving an update. Because that, we expect, will cause some modifications to the facilities. And we are concerned if the modifications will, in fact, reduce the ability to continue functioning while that work is being conducted.

So, at this time I'd be happy to take any questions on the subject.

PRESIDING MEMBER PFANNENSTIEL: Thank you, Gordon. Are there questions?

PRESIDING MEMBER BOYD: Maybe a comment.

Gordon, going back to your discussion of alternative fuels and ethanol imports, just a comment that to the degree that we're able to comply with the goals established by the Governor in the state's biofuels action plan, or bioenergy action plan, that could offset the need for some of the imports of ethanol through California's ports down here.

But, of course, the ability to do that is predicated on using California's waste stream, which is cellulose. And the need to have technological development and economic breakthroughs in that arena.

But to the extent we could do that it offsets a) the importation of ethanol through the ports; and b) using waste stream offsets the environmental concerns about land offsets and land use in other parts of the country and other parts of the world with regard to the need for sugar- or carbohydrate-based input for ethanol.

Secondly, biodiesel, as you know only too well, we struggle with the issue of the quality of biodiesel, which has mitigated against its growth potential with engine manufacturers concerned at present over anything above B5, since

we have such varying quality.

Renewable diesel has come on the scene, and there are two different kinds of types diesel, as you know. There's renewable diesel which shows a lot of promise in terms of quality, clean-burning, environmental attributes and what-have-you.

And to the extent that it develops and is developing elsewhere than in the world we'd have to import it. It could be just a one -- offset for what is the figures you have for increasing imports of biodiesel. So there's probably a one-for-one tradeoff there, but it's another possibility. And it's a slightly different commodity. A lot depends on the economics. So that's just some editorial commentary.

PRESIDING MEMBER PFANNENSTIEL: Other questions, comments? Anybody on WebX? None.

So we're right about on schedule for a lunch break now. Yes, Lorraine.

MS. WHITE: Chairman, staff has provided information on nearby restaurants, and provided maps up at the counter here for those that might be interested in finding out what's local.

PRESIDING MEMBER PFANNENSTIEL: Great. Look for stuff fast.

We'll reconvene at 1:30. Thank you.

(Whereupon, at 12:30 p.m., the Joint Committee Workshop was adjourned, to reconvene at 1:30 this same day.)

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AFTERNOON SESSION

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PRESIDING MEMBER PFANNENSTIEL: We have a number of people whom we have asked to speak, and a number who have requested an opportunity to comment today.

What I would ask for the people who are going to make some stakeholder presentations, we have a list of them, I would ask everybody to be as concise as possible. Please no longer than 15 minutes, 10 to 15 minutes.

We're here to hear from as many people as possible. And so out of respect for everybody's opportunity, to give everyone an opportunity, please keep comments concise.

We'll have presentations; we welcome them, but we will ask that you keep them brief.

And then we're starting with public comment. Good afternoon.

MS. WARREN: Good afternoon. Thank you very much for the opportunity to speak a little early out of order. Less than three minutes, so I'll be within your timeframe.

Good afternoon, Chairman Pfannenstiel and Commissioners. My name is Elizabeth Warren

and I'm the Executive Director of Futureports. Futureports is an advocacy organization that represents companies throughout southern California, companies that depend on the ports for their business.

Our members are part of or use the goods movement and maritime industry supply chain. Our members have thousands of employees who live and work here. I live in San Pedro, just around the corner. And we believe that there should be a balance between economic growth and environmental stewardship. And we support clean growth here at the ports.

So I'm here to encourage the California Energy Commission leadership and staff to consider the needs of residents and businesses throughout California whose livelihoods depend on the economic engine of these ports to move cargo.

There are half-a-million jobs that depend on these ports and millions more that are related. In fact, everyone in this room depends on these ports for most of the goods we consume every day, our clothing, shoes, toys, televisions, cellphones, tvs, video games, you name it. And even the food we eat.

So moving all this cargo and moving 34 million Californians every day to work, to school, to recreational activities takes fuel and energy. The headlines earlier indicate that our state will grow to 39 million in 2010. That's another 5 million people over the next three years. And by 2015 we'll add enough people to Los Angeles County alone to equal the entire population of Chicago. So just imagine picking up the entire population of Chicago and dropping it in Los Angeles County. It's mind-boggling. And we know from experience that even if you don't build it they will still come.

So the question is how will we provide fuel and energy for all these people to get their goods to and from market, and get them to and from their day-to-day activities.

So we feel that the facts are clearly stated. The demand for fuel and energy is outpacing supply. The millions of people who will be born here or will move here over the next ten years will have transportation needs. And they'll drive the need for more goods to be delivered to our ports and to be consumed here.

There's no supply of petroleum or other

fuels already here. It is, and will continue to be, imported. So, it's pure and simple.

So our petroleum and other liquid fuels are delivered over the water to the ports. It's not going to come by air, truck or by pipeline. So therefore, it's critical to the economic health of this state, which drives the economy of our entire nation, that we cannot afford to have any waterside or landside infrastructure chokepoints at the Port of L.A. or Long Beach.

So, the demand for transportation fuels has increased by 50 percent over the last 20 years. And it will increase even more over the coming decades. We are a much more mobile society than anywhere else in the country. And that is here to stay.

However, we have less than half of the refining capacity that we did 20 years ago. I'm sure you're all aware of these facts.

So, even though conservation and alternative fuels may mitigate some demand, the facts clearly show that California needs to have enough energy supplies to keep pace with our economy. And we need the infrastructure in place to meet the demands of the future, while providing

a clean environment for its residents.

So we thank you for being here today, and for giving us the opportunity.

PRESIDING MEMBER PFANNENSTIEL: We thank you for being here, for sharing those thoughts with us.

MS. WARREN: Thank you.

MS. WHITE: The only other agenda change we have is that right after Dave speaks, we're going to be asking Joe Sparano to make his comments, moving him up in the order slightly so that he can attend a previous engagement.

PRESIDING MEMBER PFANNENSTIEL: Fine, but we'll start with Dave Matthewson of the Port of L.A.?

MS. WHITE: Yes, ma'am.

MR. MATTHEWSON: Good afternoon, Commissioners. I'm David Matthewson, Director of Planning and Research for the Port. And on behalf of our Board and our Executive Director I want to welcome you to the Port of Los Angeles. We're glad you're here to discuss the energy demand issues and the infrastructure requirements in San Pedro Bay, which, as you are well aware, the ports of L.A. and Long Beach are critical elements of

the state's infrastructure with regards to petroleum product movement.

What I'd like to do this afternoon is to share with you what we're doing currently with regards to accommodating marine oil infrastructure and facilities within the port. And then also address or respond to a view that's out there that the port has become a one-dimensional port.

(Pause.)

MR. MATTHEWSON: And that view that the port is one-dimensional is relating to the fact that we are a container port, and that's our desire, is to become a container port.

While it's true we are the largest container port in the United States, we're more than that. We have a strategic objective to maintain cargo diversity within the Port of Los Angeles. We have 30 major cargo terminals that accommodate a variety of cargos including crude oil and petroleum products. And our strategic plan spells out that we will remain a diversified port and continue to accommodate the variety of cargos through Los Angeles.

PRESIDING MEMBER GEESMAN: Now, Commissioner Boyd and I held hearings in

Sacramento, and I want to say it was in either 2003 or 2004. We were told by the Port's management that it was indisputable that from a revenue perspective you gained a significantly greater degree of revenue per square foot or per acre from container facilities than from petroleum infrastructure.

MR. MATTHEWSON: Correct.

PRESIDING MEMBER GEESMAN: Has that changed?

MR. MATTHEWSON: No. Clearly, containers generate the most revenue to the Port. And if our desire was to solely base our decisions on maximizing our revenue, then, yes, we would try to maximize every square foot of the Port to containers. But that's not our strategic objectives.

We want to operate as a commercial port and a commercial port for the variety of cargoes that come through the port.

PRESIDING MEMBER GEESMAN: And why is it in your interest to diversify away from your primary revenue producer?

MR. MATTHEWSON: Because we recognize that as a port there are a number of cargos out

there that are shipped on the water. And in order to fulfill our obligations to accommodate the cargos, we need to be focusing on all of those cargos that come through, rather than just one segment of that industry.

PRESIDING MEMBER GEESMAN: Irrespective of the degree of revenue associated with different cargo types?

MR. MATTHEWSON: Yeah. I think we have to look at the totality of all the issues that surround maritime goods movement. And financial considerations and revenue considerations are significant, but it's not the only factor.

Really quickly, just a quick overview on the Port. We are a proprietary department of the City of Los Angeles. We are self-supporting; we generate our own revenues. And we generate those revenues through tariff charges, shipping service revenues and land rentals.

We are a landlord port as opposed to an operating port. We lease out our land and water. And we are a -- these are state lands that have been being administered by the City through a trust from the state.

Earlier, as one of the slides indicated,

we do have ten liquid terminals in the Port today; eight of them are marine oil terminals and there's two inland facilities, as well. They have access to 13 berths and there's about 8.5 million barrels of storage currently within the Port of Los Angeles. And these facilities serve the refineries in the Los Angeles Basin.

I'd like to just very quickly go through those ten facilities and just describe their characteristics and what the status of these facilities are today.

I'd like to start from the southern portion of the Port on the main channel if you could -- I apologize for having you turn.

The first facility is the Westway terminal right here; it's on the main channels in the San Pedro district of the Port. It accommodates a variety of petroleum products and chemicals; a number of small tanks. It's about 600,000 barrels of storage.

This is a facility that will be ceasing operations in the near term. This is a facility that's been sited in an area that has created some land use conflicts. And our redevelopment plans are to have this facility cease operations in the

near term.

Moving north along the main channel into the west basin area, which is right here, this is the Kinder-Morgan product terminal. They have access to two berths, about a half-a-million barrels of storage. This facility's connected to their inland storage site in Carson where they have just under 2 million barrels of storage.

We have been working with Kinder-Morgan with regards to this facility, as well, in relocating their berthing operations. This is in an area, if you can look on the map, that's surrounded by container operations. And our long-range plans would be to relocate their berthing. And we propose to move their berthing operations just across the channel here to an existing marine oil terminal site operated by ConocoPhillips.

This, again, is another product terminal. They have two berths, about 850,000 barrels of storage. So we've been working with both ConocoPhillips and Kinder-Morgan to accommodate their berthing requirements through this facility.

Moving east into the Wilmington district, Morman Island, Shell, Valero and Shore

operates facilities on this peninsula. There's four berths here, about 2 million barrels of storage. There are no plans to change the operations with these facilities.

Moving further east along the Wilmington waterfront, Vopak operates a waterfront marine oil site. Again, this is a product storage facility. Access to two berths, about 700,000 barrels of storage. And this facility is connected via pipeline to an inland storage facility also on Port property that's operated by Vopak. And they have about 1.7 million barrels of storage.

Finally, the last two facilities are operated by ExxonMobil. The first one is a marine oil terminal on the east side of our main channel right here that has access to a couple of berths, about a million barrels of product storage. And that is connected to their inland storage site on Terminal Island right here. Historically it's been used for crude oil storage; over a million barrels of capacity there. And, again, no plans to alter these operations.

I think it's important to indicate a little history here with regards to why people may think we've become a container port at the expense

of liquid bulk terminals or others.

This is a list of some of the facilities that have ceased operations in the Port over the last 20, 25 years. Most of these have been as a result of Port redevelopment plans, but some of them have been as a result of decisions made by the terminal operator.

And as we undertake our long-range planning efforts today in terms of accommodating the diversity of cargos, we are looking at two issues that really are driving this. One is the need to address that cargo diversity. And then secondly, to make sure that we are eliminating land use conflicts. And at times those are competing with one another. While we want to have cargo diversity, we also want to eliminate land use conflicts. And that's been the challenge that we've been faced with.

But we have been, as we've continued down the path of our long-range planning efforts, we have been addressing the need for marine oil terminals and accommodating liquid bulk throughput.

And these are --

PRESIDING MEMBER GEESMAN: I'm sorry to

interrupt again, but could you elaborate more on the types of land use conflicts that are of concern?

MR. MATTHEWSON: Well, I think one of them has to do -- and I'll get to it in a moment -- it's the conflicts between marine oil terminals and what we call high-density populations.

We are mandated by the Coastal Commission, both L.A. and Long Beach, to implement risk management planning. And that makes us site facilities, liquid bulk facilities, away from these high-density populations.

And because of our situation that we're immediately adjacent to the San Pedro and Wilmington communities, residential communities, it's a challenge for us to site these facilities.

PRESIDING MEMBER GEESMAN: Are those safety-related concerns, or are those public health concerns?

MR. MATTHEWSON: Primarily safety. But we also have health issues, as well, as was alluded to this morning. We have this clean air action plan that these facilities will or must adhere to, as well.

PRESIDING MEMBER GEESMAN: Yeah, but the

material that we were shown this morning, I believe you were here, similar to what we were shown two years ago when we were down here for hearings, was that the air pollution footprint of these petroleum-related tankers was significantly less than the air pollution footprint of container shipping, and marginally less than that attributed to cruise ships.

So, from a public health standpoint, I'm not certain where the conflict exists with petroleum-related marine infrastructure.

MR. MATTHEWSON: Well, with regards to the tankers, under our clean air action plan we have policies to address emission sources, various emission sources. And one of those are vessels. And it captures emissions from container vessels as well as tankers.

And it's an aggressive policy, but one that we're committed to, as is Long Beach. And one of those areas that we're looking at imposing on is the use of cold -- or amping of the vessel at berth. And we're working with the proposer of the Pier 400 crude oil facility. They've been very active and responsive to trying to address this.

There are challenges. There's no question there's challenges. They are not necessarily the owner of the vessels, nor are their customers. These are chartered vessels. So you're talking two times removed from the actual vessel owner.

PRESIDING MEMBER GEESMAN: But you have the same public health-related concerns with regard to container shipping or cruise ships.

MR. MATTHEWSON: Yes. Yes. And those requirements are also going to be required on cruise vessels as well as container vessels, as well.

PRESIDING MEMBER GEESMAN: And to the extent that the pollution footprint from container shipping, it looked to me several orders of magnitude larger, is your land use conflict concern several orders of magnitude larger as it relates to container shipping.

MR. MATTHEWSON: Well, for public health, yes. And we're dealing with that. We just released a document, an EIR/EIS for a container terminal. And we are addressing all of the air quality issues with regards to that.

Let me just go back to that. I wanted

to talk just briefly about the facilities that we are addressing right now. The first one, which was mentioned earlier, and I'll let Dave Wright talk to that in greater detail when he comes up, that's the Pier 400 crude oil facility. But, again, that's providing deep draft capabilities to accommodate the VLCCs.

We're also looking at an opportunity to reuse a Navy Reserve Center site on Terminal Island. That's a 30-acre site that's being closed under the federal RACT process; and we think that's an opportunity site to accommodate crude oil or product storage opportunities.

We've also been working, or we've offered a potential solution to Valero to relocate some of their tanks. These tanks are not within the Port; they're just outside of the Port's boundaries. But they are being impacted by a public access project. So we have offered up an opportunity site to them on Terminal Island and they're looking at that site, as well as a couple others right now.

And then we also have been approached by Vopak. They've expressed a desire to look into a potential expansion of that inland terminal site

within the Port. And we are listening to Vopak on that one.

Again, this is the crude oil facility in 400, and I'll defer to Dave Wright later on.

Should the Pier 400 crude facility go forward, though, that would provide more of a balance on the Los Angeles side in the mix of commodities that we handle. As this slide shows, we are far and away a product-handling port. All but 2 million barrels are products that are coming through the Port in the last calendar year.

Long Beach, on the other hand, is the crude oil port. Again, by far, most of their products are coming through crude oil at their 121 berth.

We have also undertaken forecasting over the years. And I think we're tracking well with what you heard from your staff this morning with regards to increase in water-borne deliveries of crude oil. While less robust, we see again growth in the need for water-borne petroleum product throughput, as well.

Finally, I'd like to discuss some of the issues and the challenges that we've been faced with in addressing marine oil infrastructure

within the Port of Los Angeles.

And the first one is that over the last several years there's been a tremendous demand placed on us for the use of our Port properties. And we have to find -- you know, it's tough to balance those needs and demands with a finite resource. So that's been a huge challenge over the last several years.

Also, you know, there's a concern of minimizing the tankage right on the waterfront. We want to make sure that our assets ar being used to move cargo through the Port and increase that velocity.

We recognize the need for surge tankage, but to turn the tanks as quickly as possible to serve the refineries. And to the credit of our customers I think they recognize that and they're looking to do that, as well. And, again, that's been an issue that's been raised over the years from the Coastal Commission, as well. They want to make sure that long-term storage is not primarily being used within the Port.

I touched on the risk management planning issues and the need to segregate these types of facilities from high density populations

and the fact that restricts or minimizes our flexibility in accommodating some of these facilities.

One other one which has really been frustrating for us is the lack of long-range planning being demonstrated by the industry over the years in developing new terminals.

And a perfect example of this is our development of Pier 400. That was a 500-acre landfill that we started planning for in the mid 1980s. And our forecast at that time, as they continue to show, a need for a crude oil receiving facility.

And we went out and on several occasions to talk with the major oil companies, every refinery in the Basin, third-party terminal companies. We also went to the producers of crude. We had several discussions with the Saudis and the Kuwaitis to stimulate interest in developing a facility on 400.

But at that time they weren't looking at the long-range needs to accommodate or to provide the infrastructure. Their planning horizon was 12 to 18 months. I mean there was one major oil company we sat down with, and they told us that it

was a 12- to 18-month planning horizon. And that's what they're worried about.

And then finally, a significant challenge is that we have no plans to create additional fill anytime soon. Over the last 20 years we've grown the Port through major fills on Pier 400 and Pier 300. That's not happening anymore. It's a changed environment. We have to be more efficient with our terminals, increase the velocity. And for a variety of reasons, we don't anticipate landfills being the answer to accommodate additional cargo facilities.

So, these are some of the challenges and the issues that we're faced with. We're optimistic. We're encouraged by our discussions that we're having with the proposer of the Pier 400 facility, as well as some of our existing customers in working with us to address their concerns for infrastructure needs as we move into the future. So, we're optimistic and continue to work with them.

And with that, that concludes my presentation. I'd be happy to answer any questions you might have.

PRESIDING MEMBER PFANNENSTIEL: Thank

you, Mr. Matthewson. Questions?

PRESIDING MEMBER GEESMAN: I wonder if you could share with us how you do your environmental documentation on any of these petroleum infrastructure-related projects.

You're the CEQA lead agency on --

MR. MATTHEWSON: Yes, yes, we would be the lead agency on this. So, we have gone through, as I mentioned earlier, the lease of the TraPEC (phonetic) document; and we wanted to make sure that we're addressing all of the new issues that have come up that ought to be included in the document.

So we have an environmental staff, a number of consultants that we work with in developing the document.

PRESIDING MEMBER GEESMAN: So that's done both inhouse and with consultants?

MR. MATTHEWSON: And depending if it's, you know, with wharf facilities that's going to be a joint CEQA and NEPA document. So we would interact with the Corps of Engineers, as well.

PRESIDING MEMBER GEESMAN: We heard earlier this morning, I'm not certain I've got the name correct, but it's the Pier 400-related

Pacific marine facility, that the draft EIR was expected at some point this fall?

MR. MATTHEWSON: We're hoping for that. There's been a -- both L.A. and Long Beach are making sure that we're doing these environmental documents correctly. And it's taken us some time to make sure we are addressing all the various issues that have come up over the last years, primarily with regards to air quality and public health issues.

So the TraPEC document just went on the street last week, or recently. Pacific Energy's EIR, we're working on that now, so we're hopeful that by the latter part of the year, in the fall, that we'll have that on the street, as well.

PRESIDING MEMBER GEESMAN: I'm going to have to say I don't know enough about that project to have a view on its environmental impacts. And certainly would not prejudge the decisions that the Port will have to come to.

But if you had told us two years ago, when we were down here for similar hearings, that we'd still be some number of months away from having a draft EIR, we would have been flabbergasted, just completely flabbergasted.

And I think that there was an unmistakable impression created by the last Mayor that there wasn't a particular sensitivity to shouldering any portion of the state's transportation fuels-related burden; that priorities were a lot more narrowly focused inside the City of Los Angeles.

Frankly, the jury is still out on this Administration, but I really do think that in preparing the environmental documents you should give some serious consideration to the overall supply and demand situation that is so important to meeting the rest of the state's clean fuels and environmental justice objectives.

And hopefully our staff can be of assistance to you in that regard.

MR. MATTHEWSON: And we appreciate that offer.

PRESIDING MEMBER GEESMAN: Thank you.

MR. MATTHEWSON: Thank you.

PRESIDING MEMBER PFANNENSTIEL: And we appreciate your coming to talk to us.

MR. MATTHEWSON: Thank you.

PRESIDING MEMBER PFANNENSTIEL: Thank you. And thank you for letting us use your great

facilities.

I think next we have Dileep Sirur from Baker and O'Brien.

(Pause.)

MR. SIRUR: Good afternoon, Commissioners; good afternoon, participants. I'm here today -- my name is Dileep Sirur and I'm with Baker and O'Brien, which is an engineering consulting firm in Dallas.

And what I'd like to do in the next few minutes is to go over an update of a southern California crude oil supply/demand balance that my firm had done for Plains All American. We had done that previous one about two years ago, and I believe some of the Commissioners here had heard it. I'd actually presented it in Sacramento.

And this new one that we have, just in a nutshell, I think our conclusions haven't really changed much even though two years have passed. But I'll quickly go through all the -- what I'll go through first is the assumptions that remain in getting to our analysis, and then showing you the results of the analysis, itself. And some comments on the results of the analysis.

So, to get started here.

(Pause.)

MR. SIRUR: The first thing we'd assumed -- we'd made several assumptions, and the first assumption that I'm going to discuss is with related to Alaskan nonslope or ANS crude, as we call it here. And the reason for that is because that's one of the main crude oils that is used in California.

What we assumed there was that the current production, which is about 780,000 barrels a day, will decline at a rate of about 2.8 percent a year in the next 15 years. And the way we got that information we actually looked at the State of Alaska's latest projection and kind of -- there are two different divisions that look at it. It's the natural resources and the Department of Revenue look at it. And we kind of made a combination of that, made a few judgment calls, and came up with this forecast.

Then once we got that, once we got that availability of Alaskan crude, we looked at where it should go first before coming into California. And our first assumption here, which is -- both of these, I believe, are realistic.

We continued to provide the State of

Alaska what it needed to run its refineries because they have no other source of crude. In the same vein, a large amount of that oil goes to the State of Washington. And those refineries don't have the flexibility of the California refineries and pretty much are, for a variety of reasons, need to run ANS. So we kept the ANS that they ran in the past relatively constant.

We used to have some ANS going to Hawaii; there was about 40,000 or 50,000 barrels a day. And that has disappeared, so we're not going to include that in the future.

Now, after that we said that the balance went to California. But here we did one little adjustment. We did not kind of divide it fairly equally between the north and the south. We kind of made an assessment that the -- if you look at the ANS crude oil going to California, that -- southern California, I'm sorry, that this particular region has the ability and has demonstrated -- I'll show you later -- that it can be weaned away pretty much, significantly reduce its use of ANS crude.

And this one other thing was, and this came up last year, I think, as a question. ANWR,

which is the Alaskan Northwest Reserve crude -- Wildlife Reserve crud, I'm sorry, I won't go through all those points, but because it's going to be so far in the future and still hasn't been approved, by the time it gets, if it does get approved, and by the time it gets approved it'll be irrelevant for southern California, because by our projection southern California won't be using any ANS crude.

Now I want to talk about California crude. And I think we've had some, you know, a significant amount of discussion on that earlier today about the decline rate. And we have assumed that it will decline in the next 15 years at about 3.5 percent a year, which is essentially the high end of the rate that Gordon showed a little bit earlier.

And our rationale was somewhat similar to Gordon's. We looked at the last six years, two years, three years, four years, five years, and they all range between 3.3 and 3.8. And so we thought 3.5 was appropriate. We used the same percentage two years ago when we did our decline assessment.

And the next thing we did is the areas

of Bakersfield and the Santa Maria refinery, ConocoPhillips' Santa Maria refinery, those have access to non other than California crude. So, as we went into the future we made sure that they were fully satisfied with their requirements with California crude and pretty much kept them constant.

And then after that the balance from there we said would go to northern California and southern California. And here, again, because logistically it's a lot more difficult to get marine imports into southern California, we felt that as we go into the future more of the California crude, declining California crude, as a percentage, will end up in northern California than it will in southern California, where in a substitution logistically can be achieved a lot more easily.

Now, coming to refinery runs, and here's something which was discussed a little bit earlier, we came up, based on our general experience and some of the work that we've done in the past, we came up with capacity creep which was a little bit higher than the high end of the Commission's draft. It was 1.25 percent a year.

And in addition to that, and we've done this the last go-round, too. You know, we didn't see any need to change it. We added 50,000 barrels a day of capacity in 2012.

Now, it's not that we've identified a project that would come onstream in 2012. It's just a recognition that some additional capacity would be added during that general period. I think the fairly recently, I believe it was publicly said by Tesoro, who just bought the Shell refinery, that they had -- their plan was to increase the capacity of that by about 25,000 barrels a day. Again, there's nothing definitive. Others have also kind of shown the same kind of inclinations without, you know, fully defining it or committing to it.

Now, the crude oil imports that we saw, if you look at the historical imports that are currently coming, dominated by the Middle East. A lot of crude coming in from Latin America; small amount coming from West Africa. And then there's minimal amounts coming from the Pacific Rim and Canada. And we'll talk about the future for Canada in the next few slides.

And what we did for starters, we took

our imports for 06, which is history, and assumed that mix would -- the base mix would continue into the future. And then we made some assessments to get the mix for the future imports.

And to do that, you know, what we did was a little more complicated than this -- generally speaking our sense was -- and that addressed quality -- our sense was that ANS would be generally replaced by Middle Eastern crudes because they're somewhat similar in quality.

California crudes would generally be replaced by, again which tend to be heavy, replaced by a combination of crudes from Latin America, some heavier ones from West Africa, the heavy Canadian crudes that would be coming in, and heavier, the wide range of qualities that come in from the Middle East.

And this incremental Canadian imports which we say will be high TAN and TAN is a term called total -- it's a napthanic acid, really, which creates a problem in most refineries. But for California refineries there's no problem because California crudes, themselves, have that property. So these would fit in pretty well into our system.

And this gateway project which was supposed to be, which would be bringing this crude, has been postponed. It is now starting in 2014, and piping the crude to port in north of Vancouver. And then what the expectation is, about 400,000 barrels a day will be shipped there. About a quarter of that would go to California. And about three quarters of it, or 300,000 barrels a day would go to China.

I think one of the issues there is that the Chinese had committed to it, but now are backing off. And Enbridge (phonetic), who's kind of the prime mover behind this line now has its hands full with a variety of projects taking crude from Canada to the lower 48. So, you know, it's a possibility that this may not be available.

And finally, incremental West African crudes will be available at about 160,000 barrels a day in 2021.

Now, the next two slides are the graphics that kind of -- graphics of the results that come about after incorporating these various assumptions.

First of all, this is Alaskan crude production and disposition by region. And I won't

go through each piece of it here, but I think what's one of the more conspicuous pieces is that Pacific Northwest, which is Pac.NW, stays fairly constant and continues to do so.

And then crudes to Alaska, ANS in Alaska, that's smaller, but it also stays fairly constant. And then crudes to California, to northern California they drop and kind of end up at zero around 2018. But southern California, because the drop is faster, you see by 2015 we don't have any ANS running in southern California.

And this is just, again I won't go through this one, but it's just kind of shows the information a little clearer. This is just the one year of history; and the rest is forecast. And it's exactly the same as the previous chart. But it shows, if you just look at the very top and bottom, focusing on southern California, you can see how rapidly the use is dropping in southern California.

Same kind of analysis for California crude. Now, here again I think we've talked about what we've assumed. And just as an aside, there's about three data points, or four data points at the very left, which at the very bottom you see a

red section at the bottom. That was the time when California crude was being moved out to the Gulf Coast by the old All American Pipeline which no longer exists now.

If you look at central California, it's flat. And you see northern California use declining some. And southern California use declining at an even faster rate.

And this is just an expansion of the forecast part of that slide.

Now, combining all those things together I put together a slide here which shows the southern California refinery crude runs, taking into account all the information -- all the charts that we discussed a few minutes ago.

And this, I think, emphasizes how imports, which started in 1997 at less than 200,000 barrels a day, are projected to go to 1.0 and 1.2 million barrels a day in the year 2021. Or it's in 2006 they're -- I'm sorry, this is total runs -- yeah, imports, 2006 they're about 500,000 barrels a day. And going all the way up, over a million barrels a day -- 1.2 million barrels a day in 2021. A dramatic increases in imports being caused by --

(Pause.)

MR. SIRUR: Bear with me one second, please. I think the factors, you've seen these California crudes decline quite dramatically. Alaskan crude declined very dramatically. And the runs have been going up. And so the slack has to be taken up with imports.

Now this shows the history and the forecast for the composition of the imports. And what's interesting here is that crudes from the Middle East dominate the scene, and are closely followed by crudes from Latin America, which is really not surprising with some of the things we heard earlier.

There's a small amount of other crudes from West Africa and Canada which will be playing a greater part in the future, we think. Pacific Rim, really is -- I think there's very little of it coming now, and it's probably going to be, you know, either zero or between zero and 5000 barrels a day. It's going to be insignificant.

Now, just I want to talk about the, just the projection part of that slide, which I think dramatizes the increase in Middle East crudes. And you can see that blue line going up all the

way to well over 300,000 barrels a day.

And, again, I think those are the crudes that lend themselves clearly to being brought in by VLCCs. And then the issues that are raised if you don't have a capability of, you know, bringing them straight into the berth, kind of come into being.

PRESIDING MEMBER BOYD: Excuse me. What kind of assurances do we have of reliability of being able to get that Middle Eastern crude based on the geopolitical issues we tend to see and face in that arena?

MR. SIRUR: Well, I think, you know, again I may be a bit of an optimist on that, but I mean if you look at where they're going to come from, Saudi Arabia is the big area it's going to come from. Kuwait is a big supplier. Now, of course, one of the biggest suppliers is Iraq, which is certainly something that could create problems.

But having said that, I think Saudi Arabia has additional 2 million barrels a day of capacity and claim they can generate more capacity if there's some cutbacks in other regions. I mean I'm not belittling the issue; I think we're all

concerned about that. How to predict it is going to be a little bit difficult. But I think it'll be a long period before we get into a situation where, for example, we lose substantial amount of Kuwaiti and Saudi crude. But it is a major concern; it's a good point.

I think I talked a little bit earlier about how southern California is going to wean itself away from ANS crude. And this chart tends to at least directionally show that. It shows our estimates of the history of ANS crude runs by three big users -- two big users and then a smattering of others put together. It is bp, the L.A. refinery, bp and bp Carson, then we should have got -- that's Chevron El Segundo, not Chevron Texaco anymore.

But if you're just starting by looking at bp, you can see that they ran 225,000 barrels a day in 1996. And that's been decimated to, you know, less than 150-, it's about 120,000 barrels a day, you know, within -- in 1997 they're running at 2-thousand-6, they're running the low numbers, so in ten years it's been almost down by half.

Now, with respect to Chevron in El Segundo, they were running about 80,000 barrels a

day in 1997. And by 2000 they were running nothing. And they don't run any ANS anymore. My understanding is they don't intend to.

So, having shown you all those charts, I'd like to kind of conclude this presentation with a few quick observations. And also show you a sensitivity chart that I've drawn where I have reduced the California decline rate and the creep, refinery creep to a level which represents about the average of what the Commission had used in its draft.

But, here's where we are with having gone through our analysis here. By the end of this forecast period for southern California, imports are going to be more than 1 million barrels a day. Almost all of them, 90 percent of them -- they're going to represent 90 percent of the total crude that's run. And about half a million barrels a day is what it was -- you know, what it is today. So, that's a huge difference.

The Middle East is today, and will continue to be the primary source for this incremental crude imports.

I think we have about almost 600,000 barrels a day or half of crude imports by the end

of the time period.

Canadian imports, which we say will start in 2014, will be about 100,000 barrels a day, but, you know, that may or may not happen depending on the situation in Canada with respect to building the line. And that slack will have to be taken up, I believe, by either crudes from -- more crude from the Pacific Rim -- I'm sorry, more crude from Latin America or from Western Africa.

And then Latin America, of course, continues to be a strong source of imports And there won't be anything from the Pacific Rim to speak of.

PRESIDING MEMBER GEESMAN: Where in Latin America do you see the gain coming from?

MR. SIRUR: The gain, at this point, I think I'm seeing -- we've already seen some, there's going to be some gain from Brazil. Brazil is making an interesting crude oil called marlin. It's about 20, 18 API, relatively low sulfur, fairly high in acid. And they are making efforts to produce significant quantities of that.

And one of the southern California refiners brought in -- and I think one or two of them totally brought in about 50,000, 60,000

barrels a day recently. Those are the places I think you'll have to seek them out, in Latin America.

Because Ecuador, you know, the potential for increased production may be limited. And if you look at -- Argentina is another possibility. Argentina has been supplying crude to the west coast. And Mexico, again a decent crude, but their production is having some difficulties right now. But Brazil, I think, will be --

PRESIDING MEMBER GEESMAN: Do you see decline in Venezuela?

MR. SIRUR: I would see some decline in Venezuela. And I think that decline in Venezuela for the Gulf Coast is really going to be made up by this Canadian crude that's finding its way slowly down to the Gulf. A combination of the decline in Venezuela and the kind of hostile environment that their leader's creating, I think, will accelerate that effort.

And one last point here that the use of ANS will have declined steadily and be eliminated by 2015, which you saw on those graphs.

Now, bp is really the dominant user for that crude. It runs over 85 percent of it. And I

mean there's several points here, there's several little -- several points here with bp. Their share of Alaskan production has gone down. They're not a major future player in Alaskan oil exploration.

Then the calcined coke business in both the Pacific Northwest and the Los Angeles area location, but my sense is that the southern California coke business may not be as strategic. And as you take away Alaskan crude and add other crudes, it's difficult to make calcined coke. So they might choose just to get out of it there and focus it in the Pacific Northwest where they have a much more sophisticated integrated system.

PRESIDING MEMBER GEESMAN: Can I ask if that would undercut their ability to provide petroleum coke col the proposed electric generating facility --

MR. SIRUR: They would be able to provide the petroleum coke because they will be producing all that petroleum coke. The calcinable coke is really -- and calcined coke is a coke that goes into making electrodes of the aluminum industry.

So, what would happen, Commissioner,

this -- as you put in more Middle Eastern crude, for example, and take out Alaskan, the quality of the coke is such that it won't pass the test for anoid grade, as they call it, so a lot will go into this fuel grade coke.

And there's not much left then. The others, I believe, -- other refiners who now use a small quantity of the -- they do can substitute for it easily.

Now, this is just a repeat of that chart I showed earlier. It's the incremental imports into southern California for the period 2007 to 2021. And this was with our assumption of, you know, 1.25 percent capacity creep, and with 3.5 percent California decline.

What we did was, you know, we looked at your draft, looked at the Commission's draft report; took an average of the high and the low. And if you look here, this total imports here are about I think -- I'm sorry, this is -- sorry, this is our original one. And if you look here, the total imports were about 670,000 barrels a day.

Now if we switched and went to a sensitivity case which you ran, which showed about 2.84 percent a year decline, and about .70 percent

a year refinery capacity creep, the combination of that when we ran the case, the 2021 imports went down to about 550,000 barrels a day. About 120,000 barrel-a-day difference.

We still kept in there the incremental capacity of 40,000 barrels a day that comes in at 2012. But we used exactly the same techniques for distribution as I talked about here.

So, just to summarize, this concludes my presentation, so just to summarize, I think we have been consistently seeing here the need for -- I mean this tremendous incremental need for imports. And along with that goes need for facilities to be able to effectively take in these imports, crude imports.

I'll be happy to answer any questions. Comments.

PRESIDING MEMBER PFANNENSTIEL: Thank you, Mr. Sirur, very very useful. Questions from the dais? Thank you very much.

MR. SIRUR: Thank you.

PRESIDING MEMBER PFANNENSTIEL: Now Joe Sparano.

MR. SPARANO: I'd rather stand here and you can look at the monitor and hopefully we can

communicate. I don't know whether members of the audience noticed, but -- I should start by saying good afternoon and how are you and I'll hurry up.

I don't know if members of the audience noticed, but I'm pleased today to be part of the five Js. We're a new group. We've got Jim and Jackie and John and Jeff. And now Joe.

(Laughter.)

MR. SPARANO: So, welcome to our little show. And on that light note I'll switch.

I'd like to focus on energy supplies and infrastructure requirements. And I just want to touch for a moment on a couple of comments that were made earlier. Vehicle efficiency is something that our industry supports; efficiency improvements. So we are hopeful that there will be efficiency improvements as I think the charts showed quite well.

The history, at least, is that as efficiency improves vehicle miles traveled increase rather than decrease. And I guess if you sell gasoline that's a good thing. And if you'd like to see it disappear it's not such a very good thing.

But on a factual basis there is support.

And our members are investing quite a bit of money, or trying to, despite the fact that we are faced with a notion in the State of California that we should move away from petroleum-based products in a very large way. And we are fully behind and constructively engaged in trying to make AB-32 and the low carbon fuel standard successful. And we're working hard at that.

I just wanted to make those comments --

PRESIDING MEMBER GEESMAN: Does your industry have a position on any of the various CAFE proposals currently being debated in Congress?

MR. SPARANO: We don't take positions on federal issues, Commissioner Geesman. I think I'll reinforce what I said. We are not opposed to improvements and increase in efficiency standards for automobiles.

PRESIDING MEMBER GEESMAN: So, if you're focused on state standards or state policy, I presume you'd be opposed to federal preemption of California's efforts to set standards.

MR. SPARANO: Well, that's a nice trap and I'm not going to jump in it.

(Laughter.)

MR. SPARANO: I think you got to look at the issues more directly than that swap you just made, and whether the state has the right or not is the preemption issue. It's not our deal. But we support, again, increases in vehicle mileage efficiency.

Also want to touch on one other subject before I jump into the meat of this, and that is I thought I heard the representative from the Port of Los Angeles state clearly, and I think I've got the quote, "we are a container port." I think I heard that, Commissioner Geesman. You questioned right off the bat some of the ensuing comments that were made.

And then I heard that there's a lack of long-range planning in the petroleum industry. While this may sound defensive, I don't mean it to be, it's reality. We work on 10-, 15-, 20-, 30-year timelines. If any industry I know plans for the long haul, it's us.

We're even planning on and developing and deploying alternative and renewable fuels at rates greater than almost any other segment of the United States' business community or industry. And certainly faster than government.

So, the idea that we may not be planning for terminals, I think is, on its face, not accurate. But more than that, I can see where our members who don't share their plans with me, would be concerned about jumping into something. You'll hear from Dave Wright. He's going into year four just to get his IER approved -- EIR approved, and that's not counting all the years of project development.

The Port of Los Angeles has made it very clear that they are not a welcoming host for petroleum facilities. And I think this is germane here because the members of the Commission, I think, have a huge challenge ahead of you trying to fit what your own staff has said, what I'll share with you and the activities that the ports are undertaking, and make it all result in affordable, abundant supplies for California consumers. It's a challenge, and we'll work with you and do our best to help make that happen.

But let's switch to the next slide, please. Energy supplies and import infrastructure are just absolutely key for the future health of the economy. I think your own staff report reinforces that.

But I'll take it a step further. State government, and I hope the CEC will take the lead, is going to have to clearly define how public ports deal with the issue. I know you can't make the ports do one thing or another, but I'm hopeful that, as I think Gordon mentioned earlier in one of his recommendations, that the CEC has a very strong role in interacting with the permitting, with projects' approval processes, whether or not we will have enough terminal capacity, storage space, marine berths to bring in the oil that your own study says will be needed.

I happen to agree with it. But those numbers are the Energy Commission's. So I think it's a really important issue. It's the over-arching need, from my perspective.

And now I'd like to look at some facts. Go ahead, please. We agree that the demand for transportation fuels is outpacing supply. And I think I mentioned earlier today even with much higher prices, 2006 versus 05, was relatively flat for gasoline sales and purchases. And 2007 about the same. So we're not seeing that elasticity. We're already dependent heavily on water-borne deliveries, both for crude oil and products.

Marine infrastructure is at choke-point because we don't have any pipelines that come into California. And I'll show a couple of quick graphics later. No crude, no product. It's either by water; or if it's ethanol, it's by tank car and a railroad unit train. So that sets up a challenge.

And then there is another challenge that we have to deal with and that's local and regional congestion and air quality issues and community issues that have to be dealt with, and we need to have balance to deal with them to insure that the quality of life in the communities is not impaired at the same time we don't wreck the economy.

So those are some of the things that are near and dear to us. And permitting issues, I couldn't leave that off. It's just a real challenge for anyone who wants to build anything in California to get a permit.

And I perceive, having been here in this business acquiring permits over a 20-year period, and supporting folks who are trying, we've ratcheted up that challenge with the issue of AB-32 and greenhouse gas mitigation.

I don't know how it's going to turn out.

I'm hopeful that the folks involved will be able to come to some agreement that will allow those projects to move forward.

Next, please. Just a quick view, and you've seen some of this. We don't have near as many refineries as we used to have. Those refineries produce about as much gasoline every day as is used in the state, and not near enough to supply Arizona and Nevada, if you chose to cut it up that way.

It's about 15- to 16 billion gallons a year of gasoline; 3.5 billion gallons a year of diesel; and another 1.8 billion gallons a year or so of jet fuel. So, we've got a lot of material that needs to be moved around. The demand is up significantly, as was mentioned earlier.

We're already importing and I don't know if there's a new number, Gordon, 3.5 was associated with the 2005 IEPR. It could be larger. I just don't know that at this point. But certainly a number to keep an eye on, because it's 1.2 billion gallons a year.

And finally, your own quote, which I think is a very very wise one, and right on point, we're just not keeping up with our fuel

infrastructure. Whether it's conventional, transportation fuels in the form of diesel, gasoline and jet, or whether it's the fuels of the future, whatever they may be, we are really challenged by the fact that the infrastructure to move those materials around is not adequate at this point. It's nonexistent virtually for the new fuels. And by your own words, it's a challenge for the conventional fuels.

Go ahead, please. Where's that bring us? Based on your own forecast we've got a challenge that may be reduced, may be, by conservation, higher fuel efficiency standards, by alternative fuels. But it depends on a lot of factors, laws, regulations; where consumers actually go when it comes to driving preferences, vehicles, how demand shakes out, what the prices will be, how international geopolitical activities influence that, as the Commissioner brought up in earlier discussions.

What is the state's economic and population growth going to look like? I know you have forecasts and I know they're carefully done. We already have a lot of people and it just seems like, as Elizabeth Warren said earlier, they're

more and more. And we're pushing 40 million now.

So, a point I want to make, and I think you have made this point better than I will make it, in your own report, transportation fuels -- should the demand actually go down and go down significantly for gasoline and diesel and jet, that will help -- I don't know if it's a help, but that will aid in balancing the need for additional imports of clean fuels.

But I don't think it's going to affect crude because crude is really based on production decline. And as Dileep just showed, in Alaska it's dropping like a rock. And there doesn't appear to be a great deal of support yet for ANWR, which is ten years away even if the support materializes.

And in California you've used some substantial but lower decline rates than were used in the 2005 IEPR. With an expectation, I guess, that price will engender more supply. And that's a good thing. But even with that, we're still looking at a great deal of crude imports.

Why is that? Next slide, please. Based on your midpoint of distillation capacity growth -- I hate being called a creep, so we'll call it

distillation capacity growth, this is a 2005 IEPR. When I did this we didn't have the 2007 draft report. And although I've read it twice, there just wasn't enough time to put those numbers in here.

But the results are the same. There's a significant decline in California crude production. And based on that decline there are going to be significant imports required. And I won't bore you with the numbers. You've heard them from two or three different people. But southern California is slated for 60 percent or so of those imports.

Next, please. This is my favorite chart because I think it just so visually depicts the challenge we all face in a variety of scenarios trying to insure that California consumers have enough product to move themselves around; that our economy has enough energy to continue stimulating and moving its growth.

And with the import issue laid out very clearly here, and again this is from the 2005 IEPR, it doesn't include jet fuel. And I think if jet isn't made in a California refinery, it's getting here on a ship. Not another way.

And if the aviation miles flown increases and that travel increases, jet will become a bigger and bigger challenge. But it's still a big issue whether the Pavley Bill, which is demand with greenhouse gas regulations, the lower level, at 2 billion gallons, or whether it's 4.6 billion additional gallons, it's a lot of ships.

And let me get into that.

PRESIDING MEMBER GEESMAN: Let me ask you on --

MR. SPARANO: Yes, sir.

PRESIDING MEMBER GEESMAN: -- jet fuel, that's a nationally, and presumably internationally, fungible fuel, is it not?

MR. SPARANO: Bonded or --

PRESIDING MEMBER GEESMAN: Isn't that --

MR. SPARANO: -- yeah, there's some issues, but yes, the answer's yes.

PRESIDING MEMBER GEESMAN: Does that make it easier or more likely that it will be an import than CARB gasoline or CARB diesel?

MR. SPARANO: John, it's easier to make a barrel of jet. You're taking the kerosene material; we don't even make naphtha-based jet

anymore. Used to be able to make jet from the end cut of gasoline. Now it's pretty much kerosene-based jet which is distillate. It's not hard to make. You just have to insure that some of the properties are well done.

And, of course, we all fly. Nobody wants water in the jet. So that's, I mean that's almost a key target in any operation.

But I think folks around the world have refined, not to pun, refined the process so that jet is made well and it is available. But most of the stuff we don't have enough of comes here, if not all of it, by tanker.

I don't know the growth rates for LAX, but I do know that Nevada, Las Vegas in particular, and Phoenix are both forecasting themselves to be the two fastest growing communities in the nation.

I was with the Governor of Arizona two weeks ago and she was all over that. That's a source of pride and a source of concern. Their dynamics for fuel supply are not as good as California's, based on where they are now.

PRESIDING MEMBER GEESMAN: Yeah, I don't know if we have the runway or terminal capacity in

California to sustain the fuel projections that we've made for jet, but I think it was a weak spot in our 2005 analysis. And I think we may have perpetuated a similar problem in the 2007. I think it does bear quite a bit more scrutiny.

MR. SPARANO: Commissioner.

ASSOCIATE MEMBER BYRON: Mr. Sparano, on that previous slide, I just can't see the timeline on that. What's that go out to?

MR. SPARANO: Oh, I'm sorry, I don't know how that -- it goes from 2003 to 2025. It matches what you have in the 05 IEPR, and now it's 30, so the changes are -- the point is exactly the same, and that's the timeline.

Before I go into the -- let's go to the next slide, please. I want to just touch on capacity. This is a major issue, from my perspective. And it's major because port policies are not driving us toward building those red portions of those lines. Not.

In fact, port policies thus far have not allowed, or at least have not supported the blue portion of the line, which is Wright's business, and any others who want to try to add to capacity to run a good business and to support the

importation of crude or products.

PRESIDING MEMBER GEESMAN: What about Coastal Commission policy?

MR. SPARANO: I haven't seen as much. You know, I think their responsibility with like State Lands is with the lands, and the port doesn't own the land, I think the State Lands Commission is responsible for the land.

I don't perceive, Commissioner, although I could be wrong and under-informed, I don't perceive that either State Lands or the Coastal Commission has interceded in a way that would have negatively impacted the movement of the current projects, which are the blue line at the bottom, up to 2 million barrels. And those projects that will be needed out into the future, as Gordon described, certainly after 2015.

In my perspective, 2015 is based on things that are underway, getting done in a reasonable amount of time. If that doesn't happen, you can change that expectation.

PRESIDING MEMBER GEESMAN: The gentleman from the Port of Los Angeles, I think, suggested that it was Coastal Commission policies, pushing them to get storage away from the water that

created a barrier to increased storage.

And I know in the Coastal Act there is a concept of whether a facility is coastal zone dependent, or needs to be there on the coast. I don't know how that term would apply to petroleum-related storage.

MR. SPARANO: If I answered more I would be guessing, and I won't do that.

PRESIDING MEMBER GEESMAN: I would encourage you to look into it --

MR. SPARANO: I will.

PRESIDING MEMBER GEESMAN: -- and share your comments with us on the record.

MR. SPARANO: Um-hum, I will do that. I do know what some of the facilities that were references are in the way of greenspace. And so I'm not sure how that relates to having tanks too near the water. And I don't know what the criteria may be for how near is near.

But I do know it's been made very clear to all of us again today what the Port policies are. And they are geared toward more container ships and less bulk storage.

PRESIDING MEMBER GEESMAN: And I have to say, as you know my experience is financial, and

an enterprise fund, and an enterprise within government is going to be driven by that revenue objective. It's supposed to be driven by the revenue objective.

MR. SPARANO: And of all people, would I stand here and say the free market shouldn't work. It should. The issue here is the balance with recognized needs and priorities of government at the state level, and whether or not the Port's fulfilling their fiduciary, as well as their moral responsibility to the folks who live in the Port, whether they can, in effect, set state energy policy by their policies.

I've got that in here somewhere; I'll be able to skip it when I get there.

PRESIDING MEMBER BOYD: -- kind of stayed out of this issue because we've been living it so long, but Commissioner Geesman broached this on a couple of occasions.

But when the gentleman from the Port made his presentation I was immediately reminded, as obviously was Commissioner Geesman, of the first time we heard from the Port. And that first time was based on what I recall that PIER 400 was going in the direction of container port, because

you, the industry, not you personally, weren't engaged in this long-range planning.

Now he brought up the subject of long-range plan lacking again today. And you countered that with regard to the industry overall what it does. But at that time that was kind of part of the issue for why not more thought had been given to developments in the Port.

And I was conflicted by the fact, going all the way back to the mid 90s, and the advent of cleaner burning gasoline, the oil industry of California, when we worried about there being sufficient supplies of gasoline for the citizens of California and the economy, based on the fact you couldn't quite make as much cleaner burning gasoline as you could old standard gasoline, we were pretty well assured by the industry that, don't worry, it's a world market, we'll import all you need.

So, I was troubled a few years ago by the fact that the Port said you all, your industry, wasn't engaging with them in this long-range planning.

Now, I didn't make any of these comments earlier because the Port, itself, had pretty well

indicated that Pier 400 is now being planned as a facility for the import of fuels.

So I remain here hopeful and conflicted. And then the tank issue has been one of Port community wanting to green up their waterfronts. And thus, move the tanks. More than it is any environmental issue or Coastal Commission issue, or what-have-you.

So, we, as an agency, still wrestle with a lot of these question marks. And I just picked your presentation, Joe, to make these comments.

MR. SPARANO: That's good, because I was hoping someone would.

PRESIDING MEMBER BOYD: You didn't --

MR. SPARANO: Something for the --

PRESIDING MEMBER BOYD: We didn't rehearse this now.

MR. SPARANO: No, no. I wish I had a slide for it. I'm embarrassing myself for not making that prepared.

What I showed the Commission is a table that's been put together by one of our members who's being asked to move their facility out of the Port of Los Angeles, even though it isn't technically in the Port.

This shows 8.5 million barrels of facilities that, for one reason or another, have moved out of the Port of L.A. in the last 25 years. Now, there's 3.2 million barrels of storage left roughly. And one of them, Valero, is being asked to move. Petrolane has had, I think, Amerigas issues with its pipeline, which has an effect on its business.

WestPac has, I guess, been advised that they are moving, and not relocated. Their business will end and their 200,000 or 300,000 barrels of tankage that was showed on the schematic. This has been a long-standing activity to diminish the amount of bulk storage in the Port of Los Angeles.

And some of our members are really fortunate, Commissioner, because they have their own facilities and they don't have to play that game. They are able to do their own long-range planning and insure that based on their crude runs they have enough storage capacity.

The other issue is I'm trying to remember what Mr. Matthewson said about the timing of those discussions; you mentioned mid 90s --

PRESIDING MEMBER GEESMAN: He said mid

80s.

MR. SPARANO: Mid 80s. The industry's worst two periods refining were 80s and 90s. Where the kind of earnings that, if they were available, were under a nickel a gallon. They were often negative.

And one does not plan for gross increases in movement of material when one is confronted with a negative earning business unit.

So, just some thoughts to respond, Commissioners, to your very good observations.

PRESIDING MEMBER GEESMAN: Yeah, I guess I would add to that, though, that a great state, one that is ostensibly the eighth largest economy in the world, does not allow that type of multi-decade planning process to be either conducted solely inside industry, or to have its critical policy decisions made by a revenue-focused and revenue-obsessed Port district.

The interests are just too broad and have too many competing concerns at stake not to be made at the state level. And I think that we've been lax in observing that.

MR. SPARANO: Let me zip to the end, because your great questions are taking more time

than I should have been allocated.

This is just another way to look at more crude imports. Go to the next slide, please. Why is that important? Well, there aren't any pipelines. This schematic is great; it shows very clearly that we are stuck, for better or worse, with moving crude in here high water, period.

Next slide. A similar view of the situation for product imports. And they, in the high forecast, could be really extraordinary. And I'll show you in just a moment a little schematic on ships that it will take. But if you go with that perspective on imports, and look at the next slide, here's products. There's three lines in California, they're all going the wrong direction. Reno, Vegas and Phoenix. No pipelines in for products.

It really is a challenge. And I think we haven't done a very good job of really explaining to the public and the media and even some of the regulatory agencies why that creates such an enormous hurdle for quick response. But it does.

PRESIDING MEMBER BOYD: You're not alone. That looks like that could be a chart,

with a few changes, of the natural gas flow in California. When we talk about natural gas from the west, we run into the same dilemma.

MR. SPARANO: Right, yes, sir.

PRESIDING MEMBER BOYD: Water-borne.

MR. SPARANO: Next slide, please. So, what does that mean? Where do you get a little bit different look on the left for the audience, and I guess on the monitor, as well. And I just did this not with any idea that that's the right size, ship size. You could use 189,000 tons and it would be 1.5 barrels of crude delivered.

But we're looking, based on your forecast from the 2005 IEPR, to be careful, ten more crude ships a month and 30 to 35 additional gasoline and diesel ships because they're much smaller. I'd use 300,000 barrel lot sizes. That may be too high, which means more vessels.

So, just to give you a sense of the challenge we will face as an industry to supply, and all of us will face, you in particular at the Commission, in crafting policy to insure that consumers have enough supply.

And we've got these EIRs, not all of which, to be fair, are marine facilities. But

there's a lot of backlog, a lot of activity, and I'm sure the staff is working hard, but there's a lot of activity that needs to be undertaken to get through this.

Last slide -- the next-to-the-last slide. This is yours. I love it. It's a terrific depiction of why the west really is faced with challenges as an energy island. And the only thing I want to draw your attention to is the wording on the lower left-hand side.

Those are nominal travel days, which exacerbate problems when there's a shortage, whether it's crude short, whether because of weather, or geopolitical issues, whether it's product short because of some instate or even out-of-state, it's a long haul from just about anywhere. And when it's gasoline it's even longer because there aren't that many refiners who have invested the kind of money that our California refiners invested to make cleaner burning gasoline.

I'm trying to wrap it -- I will wrap it up. This is the last slide coming up. Some conclusions. There is a clean air action plan. We applaud the ports for having one, and for

trying to make that situation better. Our members are prepared and are already trying to engage constructively to work with them. Unfortunately, we're not allowed to sit on the task force that exists to try to implement the plan. And we're still working on it; we don't give up easily. But thus far we've been excluded specifically from trying to contribute there.

But we do support that need to address air quality impacts. We think that one of the issues everyone's going to face is every time we try to enhance the situation with technology they're going to have to be deployed rapidly. They're going to have to be developed. There's going to be a lot of funding involved and perhaps a lot of state support to make sure that we get that done right.

Cost effectiveness is a big big issue. Most of us can probably solve the problems of the world with unlimited financial supply; it just doesn't work that way.

Legal and jurisdictional authority. We believe, as I showed on an earlier slide, that the state really needs to have a role here. Not to countermand what's happening in the ports, but to

insure that port policies are consistent with state energy policy. The stakes are too large for that.

And finally, the ports really are unique and important in the context of how this part of the country runs for its energy supplies versus the Midwest as you saw in the earlier product and crude charts, there are lines; it looks like spaghetti. There are going to be more crude lines because there are seven different lines that have been announced either under construction or already converted in terms of switching the flow; or to be constructed from Canada into the Midwest and down to the Gulf Coast. And so that will get better in the Midwest. We don't have that luxury here.

So we still maintain the position that it would be really good to continue using, and even growing, cleaner burning fuels of a conventional nature. And most certainly, because our members are invested in and will be big investors in the future in any and all alternative renewable fuels that meet a few criteria, scientifically sound, technically feasible, cost effective. They're really important.

I thank you for your time.

PRESIDING MEMBER PFANNENSTIEL: Thank you, Joe. Our next speaker is Martin Eskijian -- I hope I pronounced that somewhere near correctly -- from the State Lands Commission.

(Pause.)

MR. ESKIJIAN: Okay, thank you, Madam Chair, and I'm an M, not a J, so I'm going to be more formal and say good afternoon, Commissioners and ladies and gentlemen, and those of you that stayed. Thank you for staying; I hope there's something in what I say that finds value to you and you're going to say, I'm glad I stayed.

I promise not to show any bar graphs, no curves, just some engineering information here. I sometimes play professor, so if I get in my professor mode, just raise your hand and say, don't do that here. There's not going to be a quiz, but I just may ask you some questions.

Marine facilities division, State Lands Commission. Maybe most of you are already familiar with the 1990 Lembert Keene Seestrand Act. I'm not going to repeat it, but it basically says that marine facilities division which was formed as a result of this act is responsible for

developing performance standards for marine oil terminals in the great State of California.

And also we should provide the best achievable protection we can to the health, safety and the environment. That's our mandate.

The project that I've been involved in for the past nine years, that's nine years of my life and a lot of grey hair, has been MOTEMS. And the reason I'm here today to speak -- kind of got my blood pressure up with the second paragraph here, I think it's wonderful that the Energy Commission is going to monitor the impact of our regulations on state marine oil terminals, I think that's great.

I disagree with the second paragraph that we are affecting the decline of marine oil terminals in the state as a result of the implementation of our seismic standards. I'll try and address that issue today. I see this not as a red herring; I don't even see it as a fish. That's supposed to be funny --

(Laughter.)

MR. ESKIJIAN: I thought about this all last night. I'm still on Bangkok time, so I tend to get up early in the morning.

Why do we need standards? The average life of a marine facility as a new marine structure is 50 years. If you buy John Gaithway's book, which is on sale for about $150, you'll learn that 50 years is about the expected life span of a marine facility, whether it's a container terminal or an oil terminal, that's the expected life span.

In California, before we came on the scene, there was no records of any underwater inspection of any marine oil terminal. Facilities are designed for much smaller vessels. Anybody that thinks that today's vessels that come into our marine oil terminals are the same as they were in the 1920s, just raise your hand and let's talk about it right now. No hands, okay.

Everybody agrees with me on this. High wind loads, higher berthing loads, higher mooring loads, grandfathering, as we know it, is not going to exist anymore. That's a term that we have used to say that well, we bring in a ship of 100,000 DMET for the past ten years, it's still okay. Those days are now gone with MOTEMS now in effect.

The time of construction of these facilities have very limited or no seismic

criteria. And what's amazing is these operators want to keep using these facilities for another 10 or 20 or 30 or 40 years. And even in the Port of L.A. when you see structures built in the 1920s and 30s are still in use today, the point is they're going for 80 years, 100 years, whatever. It's a lot more than what they were originally designed for.

I could bore you with a whole lot of these photographs. I'm not going to do it. This is just one example of about 100,000 DWT vessel coming into a timber wharf in the Port of Los Angeles. I could go on and show you some berthing incidents, mooring incidents, the lack of seismic criteria and what happens, but I'm not going to bore you with any more pictures.

The MOTEMS, marine oil terminal engineering and maintenance standards, is sort of like a 50-year-old man, I'm just ten years older than that, but a 50-year-old man going to the doctor trying to get his physical.

When you go to a physical you get the EKG, you get -- I won't go into all the samples they take, but you get all these tests and they tell you how you're doing, okay.

Well MOTEMS tries to do this for marine oil terminals in the state; and this is showing the bullets of the 11 chapters of the text. It's about 100 pages long; it's free on the web; makes great bedtime reading, I recommend it to everybody, especially chapter 7.

Okay. Did we do this in a vacuum? No, we did not. We involved the industry, WSPA was directly involved in almost every sentence that went into this document. We asked for input from the Ports of L.A., Long Beach, Oakland. Consulting engineers, academia; the best people we could find in California and the country to work on this project. We believe it is a project that is worth our time and effort and my nine years of my life.

Just some minor quick details. Approved by State Lands Commission; adopted; published. And it's very interesting, in the State of California you have to wait 180 days after it's published before it becomes enforceable. So it became enforceable on February 6, 2006, which is 180 days after August 6, 2005.

These are some approximate numbers, and I'm going to talk a little bit more about this in

a minute. But we have three categories of high, medium and low, depending on how much oil is at risk. And we figure there's probably about 14 in the state that are high risk, which means they have to have their initial on it. That's a review of their whole entire structure, marine berthing, seismic, pipelines, electromechanical systems done by August of 2008.

If you're a medium you have four years. If you're a low, you have five years. Which is quite a lot of time.

But the important bullet on this page is that after you've done this audit and you have assessed your structure, you know what you got, there's no timeframe in when you have to complete your rehabilitation. It's an open-ended agreement.

You just come to marine facilities division; you tell the chief, look, I need three years to do this job. I've got environmental issues; I have money issues to get the money for my project from my oil company; whatever it is. Come and tell it to us. We talk about it, we agree to a series of scheduled deadlines. And you meet those deadlines.

Now, if you say it's 15 years, we've probably got a problem. Whatever's reasonable, that's what we do.

The other thing that we've learned over the years now is that there is no down time associated with this rehabilitation. We've seen it done big time and people keep operating their terminals; they operate every day; it does not affect operations. All it takes is some clever engineering to make that happen.

This was the one that got me was this thing about the seismic vulnerability and whether or not the seismic criteria is important to California.

This high risk that I've talked about means that the facility has to come up to not have any loss of oil of 1200 barrels when it's subjected to a 475-year return period earthquake. That means that almost every terminal in California has to be reassessed seismically to make sure that displacements of the structure relative to the pipeline you don't have a rupture, you don't have a problem.

Why do we choose this number? Many of you in the refinery business are familiar with

CalARP and the seismic assessment part of that document that says that you can use either the 10 percent probability of exceedance in 50 years, which is a 500 year return period earthquake; or now the 2 percent probability of exceedance in 50 years, which is a 2500 year earthquake. And that's scaled back by two-thirds of the spectral values. I won't give a lecture on what spectral means, but trust me, that's used for the elastic analysis of a structure subjected to earthquake loads.

Why is this important what I'm saying? It's important because we're saying that the marine oil terminal should be as hardened as the refinery. And you say, well, that's kind of obvious. Well, it may be obvious, but as it is now, that's not the case. There is no standard.

And we figure if you want to keep the state running you want your input, your marine oil terminal to be operational if your refinery's operational. And we all know that there's something a million barrels a day that comes into California over a wharf, about half-a-million in southern California, about half-a-million in northern California.

If you lose one of these, all right, let's talk about the Hayward Fault and the 75 percent chance there's going to be an earthquake in the next 30 years on the Hayward Fault. You can't afford to lose these facilities in a moderate earthquake. Because if you do, the refinery's dead.

Now, let's look at the converse. If your refinery is dead, and here's an example. If you look at the pictures from the 1999 Ismet (phonetic) earthquake in Turkey, and look at what happened to the Tupres (phonetic) refinery which was like their major refinery in the whole country. It caught on fire.

One of the vertical units dropped onto the pipelines, caught fire. It's a major upset. I believe they were shut down for like six months at the refinery.

The point is you can still bring in product to the marine oil terminal, put it on some tanks and sell your gasoline. If you lose the marine oil terminal you've lost not only the ability to provide feedstock at the refinery, but you can't bring in any product to feed your people.

So we think that the vulnerability of a marine oil terminal is important and should be addressed. And MOTEMS addresses that.

This slide is purposely not legible. And if you picked up a hard copy at the front desk when you came in, it's much better. It elucidates what I'm about to say. So if you have that in front of you, that's probably better to look at. Don't look at this because it's -- I tried to go from a Word document onto a PowerPoint and I'm not real successful.

If you have that slide I'll be talking about it here in a moment. But what's important here is that first of all, in northern California six terminals out of the 26 provide 90 percent of throughput in northern California.

Seven terminals out of 24 in L.A. provide 90 percent of throughput.

The three biggest throughput terminals in California, and this is based on 2003 to 2004, because that's when I had to do this for the final statement of reasons for MOTEMS, Chevron El Segundo is about 20 percent; Chevron Long Wharf Richmond is about 20 percent; ARCO, which is now bp, Berth 121 Long Beach is a deepwater draft

facility, about 15 or 16 percent. Between these three you have roughly 65 percent of the throughput for the state.

First of all, El Segundo is not regulated by the MOTEMS, because it's an offshore, multipoint terminal. It's not subject to the MOTEMS regulations. So, anybody that says we're restricting Chevron El Segundo with the MOTEMS is mistaken.

I want to talk about the other two on the list. The second one is the Chevron Long Wharf in Richmond. Provides about 20 percent of the state's throughput. It brings in and out about a third of a million barrels a day. It's strategically important to the State of California. They've taken MOTEMS very seriously.

The first time I looked at that wharf, under the wharf in a small boat in the early 90s, there was a lot of damage to the pile deck connections. I asked them if it happened during Loma Prieta. The answer was, we really don't know.

Those days have changed. We did what we call a partial audit. And if you look at that table I've given you, there's a PA for partial

audit on there. We did a partial audit in 1999. Chevron has taken this very seriously. They won't tell me the exact numbers, but I'm guessing it's between $25- and $30 million to rehabilitate that wharf, to bring it up to MOTEMS standards. They did all this while being completely operational, putting in four 48-inch diameter steel piles in 23 places on the wharf; with a 24-foot square section and six-foot thick concrete. All while they were operating. It can be done. No closure.

It was built in 1946, the year I was born. And Chevron is figuring that they want to keep operational for another 20 to 30 or 40 years. They'll do it.

Chevron Long Wharf is the only wharf in California -- the only marine oil terminal in California that has been instrumented as coming through the strong motion instrumentation program of California's geological organization. I'm a member of that committee and we managed to get the Long Wharf included.

In case anybody's interested, and I should get off the soapbox, but I'll say it anyway. To date there's only one record from one earthquake in all of the United States of an

earthquake on a wharf. That was recorded in Loma Prieta on a wharf in Oakland. There's an extreme lack of information about the actual behavior of these structures in earthquakes. We need it.

The third one, ARCO or bp, berth 121, Port of Long Beach. We've done a partial audit. We've reviewed their structural analysis. It was constructed as a steel tubular structure, similar to an offshore platform.

It was built in the 1980s. George Housner, the father of modern earthquake engineering, did the response specter for it. We think it'll pass just fine for MOTEMS and remain operational. It's the deepest water berth in a port in California today. And we believe it will continue operating without any problems with MOTEMS.

I'm sorry the gentleman from the Port of L.A. has left and the gentleman from WSPA has left.

MR. MATTHEWSON: I'm here.

MR. ESKIJIAN: Oh, he's here. You're here, okay. When you were in high school you all read "The Tale of Two Cities", right? Okay. I'm going to give you the tale of three terminals,

okay.

I shouldn't name names, but I'm going to do it because most of this has come out in the press already. AP had an article that went out to about 100 newspapers regarding the third incident I'm going to talk about.

The first one is Shell, Port of L.A., Berth 167-169. If you look at the table I provided, it provides about 2.55 percent of the throughput for the State of California. It's considered high risk by State Lands. It was built in 1938.

There was an incident a number of months ago where they questioned, they had a problem with their camel. Many of you maybe don't know what a camel is; it doesn't have two humps. It's a floating, usually a timber circular section log that's in the water that spreads the load out from where the impact point is to a number of timber or other types of fender piles.

Well, they damaged the camel, which is a very unusual camel, because it goes six feet out into the water. And we questioned this, and we said, well, gee, why'd you damage this. What's going on here.

Well, there's two things going on here. One is the structure was designed in 1936 or 38, and that's the particular design that worked then. And as you can probably guess, it doesn't work today.

But when you start asking more questions you learn more about this problem. It's six feet off the wharf because they can't dredge next to the wharf, because if they did the structure would fall down.

The second example I want to talk about is the Tesoro Avon facility. Built in the 1920s. it represents 1.32 percent of the total throughput for the state.

They did a preliminary MOTEMS audit in about April of last year. They did not share the results with us. The results indicated that their pipeline trestle was in serious and critical condition, as defined by the MOTEMS.

We learned about it about March or April of this year because the pipeline trestle collapsed. Well, gee, that's amazing. Their engineering consulting firm told you it was critical, and guess what happened. It collapsed. MOTEMS got you again. Should we have got them;

yeah, I think we should, years ago.

The third example is the ExxonMobil berth on 238-239 Port of Los Angeles. Represents .7 percent of the total throughput of the state. It's high risk; built in the 1920s. I believe the drawings are stamped 1923.

We were called because MOTEMS requires the operator to inform us if there's any damage on the order of $50,000 or more. So we went out there, and they broke some fender piles and the Port engineer says, well, okay, they just broke some fender piles, no big deal. We'll just fix it and no big problem.

So we went out there and we started asking a few more questions. And realized that the reason these particular fender piles failed was because the vessel was rebounding after what's called a passing-vessel-incident, where the vessel searched and swayed away from the berth, then swayed, searched back and banged into the piles.

Well, gee, is that serious? I would recommend that you all, when you go home tonight, do a Google search on the Jupiter, just spell out Jupiter. It'll come up. It's an incident very very similar to this. It happened on the Saginaw

River, passing vessel load; vessel sucked off the wharf by a vessel that was going too fast.

It was pumping gasoline and the hose broke, and I think a couple people on the ship died. The thing caught fire, there was a big explosion. This particular incident came about that close to having the same thing happen. Passing vessel load, hose, low flash point, hydrocarbon, almost a very very bad incident for the Port of Los Angeles.

Because of that the operator decided to shut down until things are okay. And we've reviewed, I think, about three or versions of their passing-vessel-analysis and their results. So far have not been successful. We're waiting for a final analysis that makes sense and is reasonable. And until that happens they are shut down.

When I looked at the drawings for the fender system, I pulled out the 1923 drawings furnished by the Port of L.A. And you know what, the fender system is exactly the way it was in 1923.

That sort of ends my talk except for a couple little things. The seismic criteria that's

in the MOTEMS is now used internationally by the PIANC document. It's in seismic designs for port structures published in 2001. it is in the commentary of NEHRP, which isn't something wrong with your knee. I'm sure an on-land guy, structurally you know about the National Earthquake Hazard Reduction Program, FEMA, which is FEMA 368. Commentary is 369. Check it out. It's on the web; 2003 edition.

MOTEMS seismic criteria is now the official one recognized by the military of the United States, which is now called the UFC 4-152-01. And that's where we are today. Also won an award in 2003.

It is now an enforceable part of the California Building Code. The seismic requirements are equal to or less than what's being used for the refineries. We do not think it's onerous.

We believe that the MOTEMS gives additional design life to aging infrastructures, aging geriatric facilities. And it also provides minimum criteria for new facilities so that your engineering firm doesn't have to waste six months going through what criteria should we be using.

It's all right here. Use this as minimum; go up from there.

And we also note we get phone calls from around the world and around the country saying it's being used.

And if you want to get a copy, here's where to get a copy. If you can't get it from there, just email me and we'll get you a copy.

And that concludes my talk. Thank you very much for your time and attention, Commissioners.

PRESIDING MEMBER PFANNENSTIEL: Do you have a question?

PRESIDING MEMBER GEESMAN: I do. I'll confess to being fairly confused and --

MR. ESKIJIAN: That's okay.

PRESIDING MEMBER GEESMAN: -- you seem a little defensive. I don't mean to make you moreso.

MR. ESKIJIAN: Go ahead.

PRESIDING MEMBER GEESMAN: Take a deep breath. And I confess to not being familiar to the section of the staff report which seemed to raise concerns. But I wonder if we could go back to that slide.

MR. ESKIJIAN: Sure.

PRESIDING MEMBER GEESMAN: And tell me which part of what the staff said causes you concern. I think it was in that second paragraph.

MR. ESKIJIAN: Right. It says that we are affecting the capacity of the state to bring the throughput into the refineries because of our seismic standards implemented in MOTEMS. That's what it says to me. And I disagree with that.

PRESIDING MEMBER GEESMAN: I got to tell you, and frankly, I'd be concerned if you're not, what I found troublesome about your slide was when you said there are no firm deadlines for rehabilitation.

MR. ESKIJIAN: That's correct.

PRESIDING MEMBER GEESMAN: From the Commission's standpoint that's probably a lot more generous than we would ever want to be about something --

MR. ESKIJIAN: Yeah.

PRESIDING MEMBER GEESMAN: -- as important as seismic standards.

MR. ESKIJIAN: Yeah.

PRESIDING MEMBER GEESMAN: And if you're suggesting that your standards don't threaten any

of this capacity, then I guess I'm concerned your standards either aren't rigorous enough in their design, or aren't being enforced aggressively enough to give us comfort about this infrastructure.

MR. ESKIJIAN: I think that's a very good question. And I'll answer it the best I can. There are environmental restrictions on people rehabilitating structures. And when the port or a terminal in northern California says, look, I've got to deal with BCDC, I have to deal with the port environmental people, that extends deadlines.

And if I say to them, you have 12 months, get it done. That's not possible. Or they say to me, look, my oil company gives me money once a year, I don't have that money today. I'll have it within six months. I need that time.

PRESIDING MEMBER GEESMAN: So that's a good rationale for flexibility.

MR. ESKIJIAN: That's the rationale for flexibility. What we do is we say, you have to schedule it with us; we have to find it agreeable, otherwise no deal.

PRESIDING MEMBER GEESMAN: So do you ever envision the circumstance where you come upon

a facility where the owner says, you know, that's just too expensive. I'm not going to do it. I'm going to follow those other 15 refineries in California for 10 to 15 years, I'm just going to shut down?

MR. ESKIJIAN: The State Lands Commission has no authority to tell anybody what to do on that, okay?

PRESIDING MEMBER GEESMAN: Understand, but --

MR. ESKIJIAN: The economics --

PRESIDING MEMBER GEESMAN: -- the standards sufficiently technology forcing or rehabilitation forcing that it's at least conceivable you might get somebody in the situation where it's just too expensive for them to go forward.

MR. ESKIJIAN: That may be possible; it could happen.

PRESIDING MEMBER GEESMAN: And wouldn't that be desirable from an overall state interest's standpoint?

MR. ESKIJIAN: It would probably protect the public health, safety and the environment.

PRESIDING MEMBER GEESMAN: Isn't that

what we're all about?

MR. ESKIJIAN: That's what this document is about.

PRESIDING MEMBER GEESMAN: I think you're taking too defensive a reaction to this second paragraph. And I certainly hope our staff is monitoring the --

MR. ESKIJIAN: No, I think that's great.

PRESIDING MEMBER GEESMAN: -- the enforcement here.

MR. ESKIJIAN: I a hundred percent agree with the first paragraph, hundred percent agree. It's wonderful they're monitoring it.

PRESIDING MEMBER GEESMAN: Well, and I hope you're enforcing your standards rigorously; and I hope your standards are tough enough that there is some threat there in the second paragraph, and a threat that's clearly communicated to us as quickly as possible so we can make whatever plans are necessary.

MR. ESKIJIAN: I hear you.

PRESIDING MEMBER GEESMAN: You're doing a good job.

MR. ESKIJIAN: Thank you. We're trying. And you got to understand that we got this through

the state, and we also talked to WSPA. We tried not to make this any more onerous than we had to.

PRESIDING MEMBER GEESMAN: That's my concern. Thanks very much.

MR. ESKIJIAN: Any other questions or comments?

PRESIDING MEMBER PFANNENSTIEL: Thank you very much, sir, for the information.

We need to move on, we're running considerably behind where we had expected to be. And we do want to allow time for public comment.

The next speaker presenter will be Dave Wright from Plains All American.

(Pause.)

MR. WRIGHT: Thank you, and I'll be brief. I did an earlier presentation at your May session that kind of talked about our project, gave a little background on it. My comments today are more toward the draft of the study that's underway right now.

First of all, I just want to say I do work with Plains All American; and the project that we're building is actually the subsidiary company name is the Pacific Los Angeles Marine Terminal. That's the reason there's been some

confusion on what people were calling it. I do work here in Long Beach; and what I'm doing is just kind of adding to the comments I made May 8th.

Most of the things that I was going to say have been covered pretty thoroughly. Crude oil, it is a pretty established fact that it is declining rapidly here in California. The population growth is going to drive many problems. And that's one of the major issues that we're really facing.

And you've heard from many people about the infrastructure here being nearly max'd out. And this issue has just compounded since, you know, 2005 when this was addressed before.

And it's an established fact that this permitting of new facilities is complex; and it's becoming even more complex and time consuming.

So, in my opinion, this is becoming a real critical problem to the State of California. And I think we're just one incident away from having the kind of meltdown like we had in the electrical industry in the petroleum side if we can't solve these problems quickly.

We're looking to agencies like yourself

to try to encourage the other public policymakers in the state to help recognize the problem and move this forward.

The comments that I want to make about this study, I'm sorry the print got pretty small here. But I guess I'm much more of a pragmatist in terms of looking what the real situation is. And I know that Gordon and your staff have done an awful lot of study and survey work.

But my concern is when I look at the projections that you're making, and I look at what the actual information that's available from California Division of Oil and Gas, I feel that the steeper declines in crude oil are much more likely than the lesser declines.

And I also believe very strongly, for a number of reasons, that the refinery creep, and fortunately I won't alienate Joe here, is actually going to be more pronounced than what's in your projections. And the implication here is really it's going to drive the problem quicker rather than later.

ASSOCIATE MEMBER BYRON: What basis do you have to make those statements?

MR. WRIGHT: Well, you know, if you're

familiar with the petroleum industry and you look at those records, if you go in and look at the Division of Oil and Gas, the most recent, the last monthly record, they do have an annual chart in there. The last annual set of information they had was 2005.

And if you look back a little further, oil prices around 1999 were about $10 a barrel. And you look at what the price was by the end of 2005, it was in the range of $55 a barrel, which is a pretty dramatic increase. And it went up, you know, most rapidly in the 2004/2005 range.

This is a huge economic stimulus to the oil companies and people that are producing to produce more oil. But if you look at what is happening, particularly on the heavy fields, they were not able to offset the decline. And if anything, the decline remained in that 3.5 percent range, and particularly on the heavy oil.

Some of the lighter oil fields were more or less flat. But the issue is about 60 percent of the production in California is heavy production; or it's offshore production that is, in fact, almost nonexistent anymore because of policies of not producing or opening up offshore

fields.

The other thing is if you look at the most recent six months that they publish in there, which is the last three months of 2006 and the first three months of 2007, oil prices were even more dramatically higher. And the industry was still facing the same kind of relatively rapid 3.5, 4 percent declines in these major heavy fields.

And then you look at the -- there's other parts of the report that talk about the efforts that are made on the production side. And this is the steam flooding, you know, secondary, tertiary recovery, water flooding. All the known techniques that the petroleum industry knows, they're throwing at this problem. I mean they want to get the barrels out because they have a very large margin if they can produce the barrels.

They are not being successful. And they are throwing, you know, all the hardware, all the techniques, all the technology they have at the problem. And they're not making that big a dent.

And that's why I feel that the more conservative sides of the decline are much more likely than the 2.5 percent declines. And what

that does, it just accelerates the problem that we're facing.

And that's, you know, when you look at kind of the industry issues, and you just heard from State Lands. You know, I've done the surveys on all the berths and there's issues.

Unfortunately, the presentation that was made by the Port of Los Angeles was factually correct, but when you put it in a context of kind of the realities of what's really happening and you look at each individual specific terminal, and look at what that terminal's designed to do, and what it's doing today. And you look at limitations around those terminals.

For example, a number of the terminals that they showed will be existing terminals, but the water depth is like 32 feet. And the amount of tankage is relatively small. It's really not an effective terminal in today's needs.

Some of the other terminals they showed, they're actually on the slate. You know, they have leases that are going to expire some time in the next four or five years. They don't intend to renew those leases. They've told those folks that they're not going to renew them. So, this rock

and a hard spot is just getting tighter and tighter and tighter.

So those are the kinds of issues that we're facing. The problem I see is that the message is not getting across to the public policymakers, the people that ultimately need to recognize the size and the complexity of the problem that's facing us. And it's going to become a crisis sooner rather than later if we can't get on top of it.

I do have just a few slides -- oh, one of the other points I wanted to make is you've kind of opened a Pandora's Box when you start talking about air quality, and relating it back to the energy policies.

This is a very very complex area. And because of efforts on the basis of CARB, AQMD, EPA and the two Ports with the clean air action plan, it's become even more complex. And I think it is an important area that needs to be considered in your studies. But I think you need to really get some really serious and good technical help to analyze it, because it's not a simple area to analyze.

Now, in the case of our project, you

know, we're going to be working with all the agencies we can. We fully believe in what the state wants, and what -- you know, we believe we should be cleaning up the air; we believe that we should be taking the actions necessary to try to accelerate industry trends; to become a better neighbor in terms of the actions and activities in the ports.

But it's very complex, and it involves the maritime industries, it involves new technologies that aren't proven yet. It involves trying to change activities in the maritime industry that have evolved over decades. There's a lot of issues. And it can't just be jammed in there. It's something that a lot of different people have got to work together to get the answers.

But they're important answers. We do need to clean up the air; we need to deal with those issues.

I don't want to dwell on this too much because it's stuff that I covered in May. But the terminal we're proposing, it's roughly 4 million barrels of storage, 100,000 barrels a day offloading rates. We are going to include all the

different kinds of mitigations that you can imagine that not only impact the terminal, itself, but it impacts the different industries that service a marine terminal like this, in terms of the tugboats and the tankers and the tanker industry and the charter industries.

This is just a schematic of the project. It involves development of a deep water berth on the very southern tip of Port of Los Angeles. There will be a couple of larger tanks in that area, and a shoreside pumping system that's part of the environmental mitigation of the project.

A tank farm back in the northern part of Terminal Island. So there's a large pipeline that takes oil from that berth into that tankage area.

And this just gives you an idea of what a deep water water berth will look like. And it's quite different than the facilities that Martin was talking about that were designed in the 1920s, and really don't meet all the seismic and tsunami and all the other aspects that you have to deal with.

When you're dealing with a tanker that's 375,000 deadweight ton, the actual weight of the vessel and the crew, itself, is almost -- it's

nearly 400,000 tons. You have to have a very substantial facility to be able to accommodate these kinds of weights and technical issues. So that's the issues that go into the design of them.

In terms of the infrastructure, the terminal's actually -- once you have the ability to land the crude, there is existing infrastructure within the Los Angeles Basin to actually move the crude around and meet the requirements of the refinery.

So the real issue is just in the Port area; and it just is dealing with the docks rather than being able to distribute the crude. And in effect, what we're doing is we're taking systems that were designed to bring the onshore production from the San Joaquin Valley and the local production, and reversing them and allowing them to move, to flow the oil back to the refineries, rather than bring the oil in from the San Joaquin Valley.

These are the milestones that our particular project needs to meet. The key one's getting the draft EIR issued. And we're hopeful that that's going to come out this fall. It's a very complex document and we've been working

closely with the Port to try to provide the information they'll need.

And then it's a matter of it goes through and officially approved by the Harbor Commission. And then it goes to the City Hall for an economic review. And then ultimately it's approved by the City Council with the City of Los Angeles.

And at the same time we have a separate permit that we have to get from the South Coast Air Quality. And one issue about marine terminals, at least new ones, we have to offset 120 percent of the emissions with emission credits. So we've actually gone in the market and purchased about $16 million worth of emission offsets for the operational portion of the berth operation.

So, from an environmental standpoint, just purchasing those offsets has major important impact, in that we have to offset 120 percent, not just 100 percent.

We also will be applying many other mitigations. This just gives you a little idea of how long this has taken. Our original application was in 2003. And I do have to take exception with

Dave Matthewson on the industry interest and trying to do things with the Port.

I've personally been involved on this particular project since 1995, '97 range. And we've been working on this for quite a long time. You know, when you have all these different infrastructures with pipelines and different customers, different refineries, a very large project that services a number of groups within the industry, these are complex things to put together from a business standpoint. And then ultimately to get them permitted. They just do take a long time.

And because of the infrastructure of building pipelines and interconnecting with them all to different locations that need to be interconnected, they are complex.

The last thing is just a few things that I would like to bring to your attention that we need your help and other state agencies' help to bring these matters to the attention of the mayors, and I'm not just talking about L.A. I'm talking about Long Beach and other cities and other groups that have oversight and ultimately control these facilities.

We need to get that input back to these different policymakers so that they understand this is something that could have a dramatic impact on the City and on all the industries in the City; and all the other people that could potentially be impacted.

I'd like to see you coordinate with the State Lands. And I think the fact that you're factoring in the State Lands' effort to police and monitor the petroleum facilities is important. It all needs to be integrated.

We really hope that you will look at the overall economic impact if something major were to happen, and I think Martin's slide showing that three terminals are moving 60 percent of the oil into California, one incident at one terminal is going to be pretty substantial impact.

And just having some depth on the ability to bring materials in gives us some cushion if there is an incident on one, that we can back it up with others.

And, here again, carefully look at the production assumptions. I really think the production's going down a lot faster than it appears.

And then I recommend getting some very qualified help on the air emissions issues. It's real complex, but it's an important part of the equation.

Thank you.

PRESIDING MEMBER PFANNENSTIEL: Thank you, sir. Jesse Marquez from the Coalition for a Safe Environment.

(Pause.)

MR. MARQUEZ: Good afternoon, everyone, President and Commissioners. My name is Jesse Marquez; I'm the Executive Director of the Coalition for a Safe Environment. We're a local, harbor-based, environmental justice organization. Our area is what I'll say it's expertise our ports, port operations and technologies, as well as the petroleum industry. And as of last year we've now moved into the energy and power generation facilities, as well.

I'd first like to thank you very much for coming here to the Harbor. Oftentimes many of us that represent the public's interest do not have the funds to be able to travel to Sacramento, even though it's not that far. Our organization is very small, although we've been growing every

year. We started back in April of 2001, and in five years we now have members in 24 cities here in California. And one other city, believe it or not, in Baja, California.

And anyone involved with the ports probably have heard the name of Punta Colanet. And Punta Colanet is where they propose to build a megaport, go to the Port of L.A. and Port of Long Beach. Well, we went there. We've been there; we've photographed it; we filmed it. We interviewed everybody.

And last December we did an environmental presentation to the public there to tell them what the environmental impacts would be to their community, and to expose the lies that they've been told already to date, such as it's going to be a nice, beautiful resort.

And so I took them photos of the Port of L.A. in Wilmington and showed them there is no Marriott Hotel, there is no Hilton Hotel, there is no Ritz Carlton Hotel in Wilmington. There is no beach in Wilmington. There are no wetlands or tidelands in Wilmington. And there is no seaside village in Wilmington. So they can understand that. And it just so happens that 25 percent of

all children in Wilmington have asthma.

And you might be concerned about things that you view as constraints, problems to port growth, problems to infrastructure growth. There's some very good reasons.

Right now, today, by midnight tonight, about 15 people in the L.A. and Long Beach Harbor South Bay communities will die. Tomorrow, another 15 people will die. Every day approximately 15 people will die. And thousands will go to the hospital every day.

Why? Because the Port of L.A. is the number one largest air pollution source in southern California. The Port of Long Beach is the second largest air pollution source in southern California. And the six oil refineries and our fuel storage tank facilities, such as Kinder-Morgan, are the third largest source of air pollution in California.

That's why there are problems. The public has been lied to. The public has been misled to believe that all the best available technologies are being used to control pollution. All the best new technologies are being used for business operations. And we have now learned that

that's not true.

I did not come from a petroleum industry background. I did not come from a petroleum industry -- I mean a port industry background. I was a Wilmington resident. And in five years I've become one of the most knowledgeable residents in the Harbor community about many different subjects, because we were forced to do it.

I have been sick every day of my life. My three children have been sick every day of my life. My uncle passed away a few months back of lung cancer. Almost every family I know has public health problems.

And because of that, that's what caused us to have to now get involved in public policymaking. I can now read a 500-page EIR put out by any agency. I can read any technical report put out by any government agency and analyze and determine some of its consequences, both positive and negative.

And I'm here to discuss some of these concerns because in the last 48 hours I did read your report. And so I am not totally a hundred percent, you know, knowledgeable of every single detail, but there are certain facts that you need

to know.

You've heard some of the reports by some of the other individuals already disclosed to you that the infrastructure is old. There's a reason it's old. There's been no investment. the petroleum industry has had 50 years to build new refineries. They've chosen not to.

It's not my fault; it's not my community's fault. It's not the public's fault. They have refused to invest in a new refinery.

If you ask me right now today, you ask any Harbor resident today, would you like to have a brand new, state of the art, oil refinery. Yes, as long as it replaced one of the old bad ones. But that's not going to happen. And that's never going to happen.

And that's why we continue having problems. In Wilmington every year pipelines and valve connections break and flood the houses in our neighborhoods because of inadequacy.

The Port of L.A., you heard WSPA blame the Port of L.A. that's causing the problem for them not expanding at the Port of L.A. Well, your staff needs to do a little bit more digging. And it involves talking with myself and numerous other

residents that are here, and other organizations, because we fill in some of the blanks.

The truth of the matter is back in the 80s you've all heard Pier 400. But here's what you probably don't know about Pier 400. It was originally proposed as Energy Island. Federal funds were put up, about $90 million worth, for Energy Island. So that all petroleum industry facilities, tanks, receiving terminals, all hazardous chemicals would be relocated to that island.

But we have one CEO, prior to our existing CEO and Commission, Larry Keller, fraudulently and violating U.S. and California law, changed all that. He used his private background as being a West Regional Manager for Mayors to influence the change of what was going to happen with that terminal.

So that today Maersk has 99 percent of all that property for a container. And then we, the public, are stuck with a deteriorating oil refineries, tanks and pipelines throughout the border and on the current port property.

He needs to be prosecuted. There is a legal challenge on that regard. And the public

supports it. But the Port is fighting it. But that is part of the history.

So don't blame us environmentalists, us environmental justice organizations or any of us residents community organizations as causing the problem or the constraint. That is absolutely not the case.

We supported Energy Island. We supported our congressional members to get that monies, and we supported the Port to build it for that purpose. And it did not happen. And that should be in this report, not the constraints from the public.

Not relegating the appeal process to CEC because of the problem here locally. No. The public will never support replacing our local authority because at that level in Sacramento none of you know the details of what really happens down here in the local level. But we do.

So what needs to be done is for your report to recommend that some of that property and acreage be taken away from mayors and the Port go back to the original plan and relocate those facilities. So when David Wright wants to build one of the most modern terminals, I can go along

with that. As long as it's replacing something else.

But I'm not going to have an existing, old, deteriorating, polluting facility and then have a new one at the same time. No.

You heard the speaker talk earlier about the balance of industry and the public. There has never been a balance in the last 50 years between industry and the public. We, the public, and local Harbor communities have been screwed the last 50 years.

And that's why we have learned to protect ourselves, to learn how to evaluate these things so we can comment to you as to what needs to be done.

We need to mitigate these circumstances. We need to make sure that when we're talking new technologies it is the new technologies. Because I know right now that 90 percent of the jet fuel tanks, diesel fuel storage tanks, gasoline storage tanks are using floating roof. Which means thousands and thousands of tons of VOCs are escaping. Why? Because they don't want to spend the money to put a permanent roof. And they don't want to spend the money to put a vapor recovery

system into those tanks.

Will I support them in a permit to put new tanks? Absolutely yes. But I'm not going to allow them to expand anything if they're not going to clean up the mess.

You heard Kinder-Morgan no longer at one of those sites; and here at the Port of L.A. Guess what? It's now a brownfield contaminated site that they don't want to clean up at the Port of L.A. But they're responsible for it.

We reviewed, myself and many others, on the Port of L.A. community advisory committee, EIR, since you brought up the EIRs. Well, guess what? We, the public, have now reviewed about 40 EIRs on the Port of L.A. and the Port of Long Beach. Not one complied with CEQA law. But yet every one was approved. Why? Because none of us in the public were around at that time with the intelligence and I.Q. to really research it and find out what the problems were. Well, now we know why. Because we've now developed the skill to evaluate those things.

So if they did not lie in these past EIRs we wouldn't have a problem today. Now we know how to assess those.

Kinder-Morgan, City of Carson issued an EIR a couple years ago, for 19 new storage tanks. And what did the EIR say? No significant environmental impacts whatsoever. Until I read the section on air quality, and I'm reading a couple of paragraphs and it says, however, there will be a net increase of certain emissions, see table 3-13.

So I looked at the table 3-13. And what does it show? VOCs, 241,000 pounds net increase annually. Now how could that be insignificant? So we challenged that project.

So you also hear 14 EIRs in the Port of Long Beach have gone nowhere. That's because we, the public, have challenged every single one of them, just like we're doing at the Port of Long Beach. Until proper decisions are being made, okay.

What can be done? We know we can prove engine efficiencies. Ship, truck, train, we need to have those efficiencies projected out, as well. Because what's happening is you're projecting fuel needs. Well, if we have better engine efficiencies, we won't need that much fuel.

At the same time we are supporting the

same type of technologies such as the locomotive railroad, which is using diesel fuel. We don't care if they're going to switch to the low sulfur diesel fuel. It is a fact that the California public supports weaning ourselves of petroleum fuels the best that can be done.

And what can be done? Electrify the Alameda Corridor project. Support electrification of railroads. Adopt new and emerging technologies such as the MAGLEV technology, such as the linear induction technology, such as electric truck rail technologies. That's what we support.

Do I have any sympathy for -- Railroad or UP? No. They've had over ten years to embrace these technologies, adopt them and invest in them to service the public, and they have refused to do that. So, as a policymaker, the public wants you to support that.

So in your report you should include in there not only advanced control emissions technologies, but new emerging transportation system technologies that do not use petroleum fuels.

Now people are going to say, oh, we need -- how are we going to get electricity. We can

support solar panel installation. Yes, they've only been 20, 25 percent efficient in the past, but guess what, again, as community people we do a lot of research. Boeing, through a spectrolab, has just pioneered a 40 percent efficiency solar panel.

So your report should also reflect how can we reduce our use of petroleum fuels by supporting and investing alternative technologies as an example.

Anti-idling devices. Another technology, fairly simple, that can be adapted to almost everything. Your railroads, your diesel trucks, your cranes, you know, any type of thing that can help reduce that.

I also work in the construction industry. They always left the trucks running. They always left, you know, the forklifts running. Everything, even when they have lunch break, your break time, they're left idling. We need to stop abuses such as that.

Also understand that we the public do not mind industry growth, throughput, et cetera, provided they are using the best technologies. We want zero emissions and near zero emissions. And

we are not going to support any type of energy or other credit type trading program that's going to allow a polluter to keep on polluting and buy credits somewhere else, supposedly helping the whole region.

Environmental justice communities, such as Wilmington-San Pedro, Long Beach, we have borne the burden of all these industries. So we now ask you in your policymaking capacities to include in your report that we do the best, we look for the best. And if your staff can't find it, then you need to have more public hearings, more public meetings. You need to expand your 30-day public comment period to 90 days to allow those of us in the public sufficient time to review your documents and reports so that we can contribute these ideas. So we can refer you to the companies.

I was in Sacramento on Tuesday and a guy announced his Sky Car. What is it? Another alternative vehicle, raises off the ground 30 feet and flies, you know, avoids the traffic congestion. But it's another idea.

A company four years ago here came to the Port of L.A. and to the Port of Long Beach.

And that's Control Systems Technologies. And said, we have an idea; we'd like to build a barge. And this barge can park alongside the ship. It would have equipment to like a big vacuum. A fume hood would go over a smokestack of a ship and suck up all the exhaust. And everybody laughed at the company.

They also proposed building on land at a railroad yard facility. And the rail district laughed at them. But we supported them. We told them let's apply for some grants to approve and build a prototype. Well, guess what? They got three grants; it was built last summer in Roseville. They just delivered their final report this April, a couple months ago. It was 92 to 97 percent effective in capturing all the VOCs, all NOx, all SOx, everything. But it was laughed about.

Well, we need to incorporate those technologies so that industries do not have impacts on the public.

Sometimes you have to make tough decisions. What's one of those tough decisions? Arizona, Nevada. We're no longer going to ship fuel or allow fuels to be shipped to you. Why?

Because we bear the burden of the environmental public health, public safety impacts while you live scot free off the benefit of it.

If you tell then in ten years we're not going to ship you any more fuel, then Arizona and Nevada can build their own refineries and their own pipelines. California does not have to subsidize them.

PRESIDING MEMBER GEESMAN: What if they say the same thing about electricity or water?

MR. MARQUEZ: I support solar energy, wind power, thermal energy, numerous other technologies.

But again, where are you researching that? I haven't seen a report that comes out of the CEC yet that has told me what is a future 50-year plan for sustainability of these technologies.

In fact, I'll tell you what we just did recently.

PRESIDING MEMBER GEESMAN: Next time you're in Sacramento come by our library.

MR. MARQUEZ: At AQMD, it's claimed that we need approximately 5000 megawatts over the next 15, 20 years. Four or five of us nonprofit groups

each chipped in 2,500 to hire consultants to take a look at that.

And what did the report come back to say? No. It's about 1200 to 1500 max. And if we invest in all these other renewable sustainable technologies we would never have to go that 4500 or 5000 megawatts.

So there needs to be more discussion with the public. And especially organizations that are pioneering some of this research. You even need to sponsor new advanced technology conferences and seminars so that even if you have to put up a -- let's put up, you know, a contest. Who can come up with the best windmill. Who can come up with the best battery alternative.

We need to support those types of investments, because that's our future. And that's what the public is going to sustain. If you ask me and anyone here in the L.A. area, do we want a railroad, you know, making the noise 24 hours a day, dragging containers. No.

But if you ask me what would I prefer to see, that I would like to see the idea by Alfred Wermer from San Pedro here who came up with an idea. And what was his idea? Build a tunnel from

the Port of L.A., Port of Long Beach, underground, slanted down, going to the east side railyards. And use gravity to let the containers roll down. And a conveyor system to pick them up.

And then have another tunnel so that the empties roll back. Why would I like that? I don't care if it costs three or four times as much, but I never have to see it; I never have to hear it; I never have to smell it. It won't take away any of my property in my community for new residential development. It won't take away any property for any commercial and retail development. And it won't take away any property for any open space parks.

So, give the public an opportunity to understand some of the things that we're saying because we have some great ideas. And we have some great solutions.

And I won't take up any more time, but I will submit this in a written form so that you can have the benefit of these ideas. And, again, offer our services to you as a resource.

Thank you.

PRESIDING MEMBER PFANNENSTIEL: Thank you, Mr. Marquez. Thank you for your comments.

We really appreciate it.

(Applause.)

PRESIDING MEMBER PFANNENSTIEL: We next have Dave Hackett from the Stillwater Associates.

(Pause.)

MR. HACKETT: Commissioners, Staff, ladies and gentlemen, I'm Dave Hackett. I'm the President of Stillwater Associates. We are an energy consultancy in Irvine.

We've been working in this space for five or six years. I think we started the strategic fuel reserve, which got us into the barriers to supply in California. We did projects for the Energy Commission on marine infrastructure, on MTBE phase-out. The latest thing has been working on the next version of gasoline in California. Not for the Energy Commission, but for the automobile manufacturers.

And of late we've done quite a lot in the renewable fuel space. So Gordon Schremp of the staff asked me to come by and make some remarks about renewable fuels and infrastructure.

Well, there's an awful lot of renewable fuels coming on in the market today; and they're gaining market share. And they're going to need

infrastructure just like petroleum needs infrastructure.

And as you've seen today, there are many stakeholders competing for scarce resources. The Energy Commission is charged with developing energy policies that conserve resources, protect the environment, insure energy reliability, enhance the state's economy and protect public health and safety.

The high price of petroleum and concerns about the impact of global warming are driving new solutions. Renewable feedstocks and fuels will come by land and by sea. Infrastructure constraints will impact renewable fuels, as well as petroleum fuels.

Seen this before. Both federal and state governments are looking to reduce our dependence on petroleum.

President Bush proposed a dramatic increase in renewable fuels in the State of the Union speech. And that proposal's been echoed recently by the Senate. And they're looking to increase renewable fuels from about 5 billion gallons in 2006 to 35 or 36 billion gallons by 2017.

Now, if you look at this pie chart you'll see that the Energy Information Administration thinks that corn ethanol production will max out at about 15 billion gallons. And if you throw in a couple billion gallons for biodiesel and potentially 3 billion gallons for cellulosic ethanol by that timeframe. And the balance of renewable fuels are put into that upper slice called imports or other. And that's likely ethanol from Brazil, for example.

President Bush was in Brazil this spring discussing technology and markets with the government and with Petrobras, the Brazilian national oil company. One of the implications of 35 or 36 billion gallon renewable fuel program is an E20 mandate. That is to say that gasoline nationwide would contain 20 percent ethanol.

Well, the Energy Commission is hard at work on Assembly Bill 1007 which requires the state to come up with an alternative fuel plan. The Governor has proposed a low carbon fuel standard. And that will enhance the use of renewable fuels.

We're starting to see or we have been seeing renewable fuels supplementing petroleum

supply, but big volume is in ethanol. Six percent of the gasoline in the state is made with ethanol -- is ethanol, but biodiesel is gaining wide interest.

As you've heard earlier ethanol is going to grow to probably 10 percent of the gasoline supply by 2010. That's the result of update of the predictive model by the California Air Resources Board, which will permit 10 percent ethanol blending. Ethanol's also blended into E85, but that's an extremely small market.

Diesels made from vegetable oils or animal fats through a relatively simple process called transesterfication. Because biodiesel contains no sulfur or aromatic hydrocarbons it reduces tailpipe pollution versus petroleum diesel.

Biodiesel is generally blended with petroleum diesel in small concentration, 2, 5 or 20 percent. But unlike ethanol the base fuel, base petroleum, doesn't have to be reformulated in order to be blended with the biodiesel. So that's an advantage for biodiesel over ethanol.

Biodiesel can be made from waste cooking oil, thus, you know, reducing a waste stream.

Here in California biodiesel supporters have estimated that the total supply of vegetable oils, animal fats and waste cooking oils on the order of 75 million gallons. That's about 5000 barrels a day for my refiner friends who are still awake.

And that's in the context of about a diesel market of about 250 or 260 thousand barrels a day. And biodiesel appeals to consumers a lot because it replaces petroleum, it reduces air pollution and it's renewable.

Like petroleum, though, renewable fuels will flow into the state via dedicated marine infrastructure. Most of the ethanol that's used in California comes by rail from plants in the Midwest in the corn belt. Lately large-scale ethanol plants have been built in California. More will be built. Their feedstock is corn and it's railed in from the Midwest.

U.S. domestic ethanol production is supplemented by marine deliveries. Last year roughly 10 percent of the ethanol used in the state came into the ports, mostly from Brazil. Although interestingly some came from the People Republic of China. So 10 percent was about 2.4 million barrels of ethanol. Interestingly crude

oil imports from Brazil were about 18 million barrels; that's the 50 a day that was referred to earlier, I think by Dileep.

Some of the ethanol is delivered through the existing petroleum distribution system, while the balance comes in through chemical terminals. In southern California there are three chemical terminals, WestWay in San Pedro, BoPak in Long Beach and Baker Commodities also in Long Beach. Only the BoPak terminal is expected to be in operation for the longer term, because the leases for both WestWay and Baker Commodities have been terminated.

A fair volume of biodiesel has landed in California's ports over the last two years. The WestWay terminal in San Pedro has had the bulk of that volume.

Because local feedstocks are limited we expect that large-scale growth in biodiesel production will be supported by imported vegetable oils. The Baker Commodities terminal at Long Beach has traditionally focused on both vegetable oils and tallows.

People want to reduce their dependence on petroleum. Ethanol, biodiesel and vegetable

oils are supplied by the sea. It will be important for the renewables fuels business that adequate infrastructure is maintained.

Any questions?

PRESIDING MEMBER PFANNENSTIEL: None. Thank you, Mr. Hackett.

David Blair, Holly Energy Partners. Not here. Okay. We have a number of people who have asked to speak and they've filled out blue cards, which has helped us to sort through them.

So I'll go through the cards in the order I received them. Tom Politeo.

MR. POLITEO: Tom Politeo.

PRESIDING MEMBER PFANNENSTIEL: Sorry.

MR. POLITEO: That's okay. Are you asking us to come up and speak --

PRESIDING MEMBER PFANNENSTIEL: Yes, if you have a comment to make, yes, Tom.

MR. POLITEO: Yes, I do, -- speak up there or --

PRESIDING MEMBER PFANNENSTIEL: Either microphone. We would like you at a microphone, though, so your comments will be recorded as part of the record.

MR. POLITEO: Thank you very much for

being here today. My name is Tom Politeo; I live in San Pedro and I telecommute to Long Beach these days. I work in the computing industry as a software engineer, and that may come up a little later in my comments.

It's a wall, it's a snake, it's a tree. These are the kind of comments you get from three blind men when they see the elephant, right?

I have been to a lot of these kinds of hearings dealing with retail, dealing with energy, dealing with marinas, with habitat. And everybody has a different idea, depending on what their interests are. What sort of use this land, this very precious land we're dealing with, San Pedro Bay, should be put to.

The retail industry is very concerned that there's going to be enough capacity to move all the cargo they want. We heard today from the oil industry that's very concerned about a similar issue. Folks who do private boating in the marina don't have enough berths already for the kinds of things that they want to do.

Among other things, they're interested in being able to hold regattas here. There's very nice sailing out in San Pedro Channel, and there's

no place for transient berths for doing that. They've been interested in trying to have world-class events here. They can't do it.

The cruise industry wants to be able to put more cruise ships here. They also want the kind of visitor-serving amenities along the waterfront that help support that. There's a challenge to find the space and the land to do that.

If you talk to the environmental community -- I'm, by the way, a volunteer with the Sierra Club -- there used to be 3500 acres of wetlands here. That's just 100 years ago. There's less than 35 here now. That's more than as 99 percent reduction.

And if we're looking at balanced use in the harbor, one would ask, wasn't there the ability to leave 10 percent of this resource prime. In the 1930s southern California here in San Pedro and up in Monterey in central California, we had the world's largest fishing fleets. These were then the leading aspect of the California economy.

Now, times have changed. But these fishing fleets are in a state of collapse, having

less than 10 percent of their peak production. Now some of that is certainly due to over-fishing. But a large part of it is due to the destruction of habitat of prime lands like this.

And if you look at part of the mandate for State Lands, in our tidelands areas, it is for the support of fisheries. And one of the ways this kind of land can support fisheries is through the habitat that is at the base of the food chain that our fish need.

The California sea otter used to be here. It's an endangered species. It's basically been sequestered up around Monterey. But this is, again, an important piece of habitat that once fed into that.

There are a lot of other problems of the fishing industry besides just this.

There are many other sorts of demands that are being placed on this land. And you can, from the perspective of the California Energy Commission, which is no different than the perspective of the environmental view from the marina perspective or the cruise perspective, come in and say, well, we need more land for our purposes. And we are seeking a way to wrest

control away from the local ports to be able to fill those needs.

But you could end up determining the national retail policy by taking away land that might be used for retail purposes. And the question becomes, how do we determine what is an appropriate balance for the use of this valuable resource. How do we balance that out.

We can get into arguing about who's to control this. Or we can start talking instead about what are ways we can do to make this land used more efficiently.

If you go to the airport the white curb is for immediate loading and unloading only of passengers. You can't park your car there, not even for a moment. You're going to get cited or towed away.

Just as an anecdote, here in Los Angeles one time when I flew to New York, the police were pretty polite about it. When we got to New York the police were yelling obscenities at people to get them to move their cars. It's really an experience to hear how they address their people parking in the white zone in comparison to L.A.

But that said, okay, you know, there's a

point that maybe we need to start thinking like the New York cops with respect to how we're using land inside the Port, because it's so valuable. Okay.

We cannot enjoy the luxury of storing large numbers of containers until it's convenient to move them out of the Port on the backlands at our container terminals. Nor can we afford the luxury to have large crude or other chemical storage facilities inside the Port, again, if that stuff can be moved out more efficiently, if it's taking away from berth space. Or from the other potential uses that need to be put into this land.

So, I'm asking you, as you look at this kind of thing, rather than to be working in an antagonistic position with the Ports, talking about who's going to control this picture, finding a cooperative project to say, what can we do to make this land work more efficiently, to make this whole operation hum.

The supporters of MAGLEV will tell you that they permit removal of single containers on an automated infrastructure, which means that the complex process of sorting containers in the Port and building long trains is obviated.

And I know some of you work with transportation. That's a very important factor, because if you build that kind of a modern facility we suddenly have a lot more land available inside the Port for other uses without denigrating the capacity of the Port to carry cargo.

One of the things that really concerns me, you know, I don't work for the CIA or the Marines, and as such, I'm really very interested in my environmental and my economic security with respect to where my future lies. And though I don't have any children, my friends' childrens are going to be able to have, are they, in Thomas Jefferson's words, going to be able to inherit a nation that is not seriously in debt. Or is our generation going to indenture the next.

And again in Thomas Jefferson's words, how are we going to handle our use of -- rights over the land. Okay. Are we going to destroy that, the fruit of the land, and leave our next generation with barren land. We've already done that here in L.A. Harbor. This land is essentially barren from the environmental capacity it once had.

And the questions we need to be able to ask ourselves, because this is not just here, this is all around the world. In the United States we've destroyed over an average of 90 percent of the wetlands. Most of the world's fisheries are in the state of collapse. And we have the world's continually growing population.

And we need, again, to be looking at how we're going to be able to put multiple uses in a piece of land, and fit all these things together. What can we do to modernize this Port in order to make that happen with respect to the uses that we need for energy and everything else.

Forty-two percent of the imports to the United States come into this Port; 65 percent of the energy for California's coming into this Port. A few years ago they did a simulation of the 7.1 earthquake on one of the faults that runs through the Port that's right next to the Vincent Thomas Bridge. Can you imagine what would happen, or what will happen when an earthquake of that magnitude finally arrives.

Almost all of this Port is built on landfill. It's in a liquefaction zone, and it's in a subsidence zone. And it's riddled with

pipelines. Can we expect those pipelines to remain intact from a seismic event like this.

Can we even be so fortunate as to expect only a single break in a pipeline serving a terminal. We can harden the terminals. A lot of good it will do us if the pipelines that connect everything up are broken in multiple places and it takes a long time to find them, and there's nasty fires associated with that.

We've put too many eggs in one basket in this Port as it is already. You know, this is where I said I work in the computing industry. We have clients, you know, we install redundant systems. All we're doing is preventing fraud in telecommunications traffic. Nobody's life depends on this. Just the economic stream of these phone companies that we work for.

But we make sure that there's redundancy in facility, not only at a specific location, but redundancy through use of multiple locations or offsite backups.

Where have we done this in our infrastructure planning for the moving of food, cargo and fuel that are essential for our economic survival. What will be the hit to the United

States, and particularly to California and this region, if a seismic event of any significant magnitude strikes this Port and some of these facilities very seriously damaged.

I'm also concerned about our trade deficit. All the projections show we're going to be importing more and more oil with respect to the amount of oil that used to come out of the State of California, means more and more money leaving our state and leaving our country.

California, as you know, is already a federal income tax donor. Our national debt is growing. Our trade deficit is growing. For five ships that come to our Port, four of them go back as empties. And the fifth ship is primarily carrying products dominating like scrap paper and scrap metal. That's an inefficient use of energy, if nothing else, because we're using twice as much energy to do commerce across the oceans than we might if there was a balance of trade, because we're having to send these ships back empty.

And it's also reflective on land use patterns here in Los Angeles County or the metropolitan region. Because containers move one direction full, and now they've come back empty to

the Port if they go back at all.

Just about done here, by the way. So, we need, among other things, to be able to look at what we can do to diversify the locations through which energy arrives into the state. Solar energy is one of the ways to do that. And a plug-in electric car, which could only perhaps go say 20 miles on the electric part of the charge, is sufficient to get people -- plug-in hybrid -- is sufficient to get people, most people in southern California to and from work without using any petroleum products. And for longer trips you'd use the fuel backup system on the car.

We need to see some kind of leadership from the California Energy Commission in terms of helping diversify, and not in some small way, but in some very significant way, our energy portfolio. And helping keep the work for generating that energy here in the State of California, rather than rely more and more on exports and having -- rather imports, and having a very uncertain future with respect to how we're going to get our energy, whether the energy is available and watching our state's economy further drained by that.

Unless you have any questions for me I'm going to sit down. Thank you.

PRESIDING MEMBER PFANNENSTIEL: Thank you, Mr. Politeo.

(Applause.)

PRESIDING MEMBER PFANNENSTIEL: Steve Faichney.

MR. FAICHNEY: Good afternoon, Commissioners. Steve Faichney, Valero Refining, Wilmington.

On behalf of Valero I want to reinforce the comments made today by CEC and WSPA regarding the need to maintain existing oil infrastructure and to make provision for expansion and addition of new facilities capable of supporting the increasing need to import crude oil, intermediate blend stock and gasoline to meet growing consumer demand.

Valero feels strongly that sustaining and expanding Port dockside infrastructure is a primary step, but not the only measure, in insuring reliable fuel supply. We must also protect the existing and required inland oil infrastructure, specifically product tanks and pipelines which run throughout the region

connecting to critical production and distribution centers.

Valero can speak firsthand of the necessity to maintain inland product storage capacity. Unlike other southern California refineries, Valero's refinery property is small and, in fact, only a fraction of the size of its competitors.

The Valero refinery property does not provide enough space to accommodate all the required product storage necessary to support fuel production. As a result, for many years now what has provided Valero the ability to produce and deliver 14 percent of southern California's gasoline supply is the critical and historical utilization of exclusively leased offsite tank storage.

Unfortunately, for the past five years Valero has experienced mounting pressure from public agencies and politicians to cancel exclusive tank property leases prior to term end for the purpose of community aesthetic improvement, with little regard to the consequences to transportation fuel supply to all of southern California.

Valero supports the Energy Commission's policy update conclusions regarding the need to protect the essential and increasingly delicate elements of southern California's fuel oil import, production and delivery system.

Thank you.

PRESIDING MEMBER PFANNENSTIEL: Thank you. Janet Gunter.

MS. GUNTER: Good day, and thanks for being here so that we can speak to you.

First of all I just want to say that I'm also a member of the Port Community Advisory Committee. And this is supposed to be a standing committee of the Port that represents the community. We have this wonderful relationship where we are on top of what happens in regard to the Port and business.

And unfortunately, none of us knew that this meeting was taking place. I got an email last night. And so there are a few of us here today, but by the skin of our teeth, and with really nonprepared statements, and very little education. I couldn't stay all day. I didn't realize it was an all-day thing, so I had to come back, like a few other people here.

So I just want to say that this is -- when we talk about this issue and increase of these terminals, for the local communities we're talking about an enormous, enormous thing. And Jesse Marquez alluded to a number of things that we've gone through as far as kind of a bait-and-switch scenario in our dealings with the Port over the past couple of decades. And it's left us in a bad place with a really bad taste in our mouth.

But from what I'm gathering just from what we're talking about today and this great impression of this need for these petroleum products, it seems to me that this is really a push to create what's going to be Pier 600, the original Pier 400, Energy Island would have sufficed to become this relocation site, or the site of all these oil marine terminals.

And now we're looking to add yet another thing. And this is the reason why, because, by golly, we need this in the worst way.

And it occurs to me that any expansion of these few terminals at this point is in direct conflict with the over-arching aims of the Governor and the Legislature at this point, to wean ourselves off of this oil dependency that we

so carefully crafted for ourselves over the past 50 years.

And I resent that. I mean I think that this is an issue that cuts to the heart of a book that I recently read, "Confessions of an Economic Hitman." I absolutely recommend it. It's a fabulous book which talks about somebody who worked in government in the capacity of kind of reinforcing the relationship and the need for petroleum products in our world today, understanding all along the problems associated with that. To encourage this dependency at the aim of profiting for particular people that are, unfortunately, part of our system.

And, you know, I didn't start out this way, okay. I worked to understand these issues, and I've tried to look at the responsible way that we do business and have realized over time that we aren't responsible. And our strategy of protecting is deferred always when it comes to responsibility for ourselves and our economy and everything. We're so short-sighted.

Dave Wright, when he was up here talking about the need for petroleum fuels, he said, you know, we're all aware of the issues of the

environment and the global warming and, by golly, we're going to pay attention to that. But there's always this caveat of a "but" and it's all about later, it's not about now.

The problem is we've been doing that for so long that we've worked ourselves into a situation we don't have time for later. This is the time for now. And it doesn't mean that we can continue to nurture this dependency and the status quo. Which is, that's my view, instead of putting this -- we're not putting the money into research and development; we're not putting the money into biofuels or products that can help us.

What we're doing is we're encouraging growth of the existing situation so that we can placate ourselves for the moment or for however long we can stretch it out. Instead of taking immediate action and saying, let's get hard and fast about how we can change the situation because it's critical, we're still futzing around with it and pretending like the problem isn't as big as it is.

It's been a bad day. I'm not in a real good mood because there's been so many things going on. And this problem is not going away.

Jesse alluded to the issue of the -- or Tom alluded to the issue of the earthquake faults. Yeah.

We keep putting more and more hazardous cargo in a place that shouldn't have it to begin with. So, instead of decentralizing the existing situation and saying to ourselves if there's a terrorist attack, if there's a major earthquake, look what's going to happen to the economy. It's the national economy that actually will be global because of the domino effect of this.

So you have one situation here that's of a critical nature, and you will cripple the world's economy for god knows how long. And instead of looking at how we can defuse that huge bomb that we're sitting on top of, we keep adding more and more fuel to the fire, if you will.

We're talking about doing it now. Well, what the heck, let's just do it because, one, it's easy. Instead of thinking about it.

Again another issue that keeps coming up is the leadership. Because somebody has to take charge of this. And you can't turn the mule around unless you've got somebody real strong turning it.

So, I don't know what to tell you guys. I know this is not your fault. You're here now at a point in time where you've got a mess to deal with, as we all are. But this is not rocket science. This is so common, this is so basic, and yet we continue to ignore it.

And one of the first problems you see with this Port is the way that they do their environmental impact reviews. You know, part of the reason we have what we have is the Port -- they hire their own environmental documents, okay. They hire it out. They review it and they certify it.

The process has no oversight of anyone outside this agency that's been dictating it, reviewing it, saying, oh, looks all right to me. Overriding considerations, you know, there's no problem here. No, no, there's no impact. No, no impact to the air, no impact to the water, no impact. Or if there is, well, you know, the state economy, the engine of the economy, let's do it anyway.

You got to stop this stuff. I don't understand why all of us are still sitting here thinking that it's okay to do that. It's not

okay. We've proven it's not okay. And hopefully just some leadership here, and you guys are going to think about it. And you're in a capacity to do something. Please do something for all of us.

Thank you.

PRESIDING MEMBER PFANNENSTIEL: Thank you, Ms. Woodfield.

MS. WOODFIELD: That was Janet Gunter. I'm Kathleen Woodfield.

PRESIDING MEMBER PFANNENSTIEL: I'm sorry. Then, come on, yeah, it's your turn now. Had the cards shuffled.

MS. WOODFIELD: My name is Kathleen Woodfield. Thank you for being here.

I cannot understand or believe that the State of California considers the Port of Los Angeles and the Port of Long Beach to be its golden eggs. And it's a very myopic and one-sided view because what never gets looked at is the impacts to the citizens of the state.

And CARB, California Air Resources Board, has recently put out their findings that 5400 Californians die each year prematurely due to air pollution. That's a lot of people. And if they put that number out this year that means it

was probably for 2005 that they identified that, which means we've now had 15,000 Californians die prematurely due to air pollution.

So that it always boggles my mind that there's this belief that we are so highly benefitted by this Port and by the fuels that drive the industry. And it always boggles my mind that we're not highly driven, as a state, to find a better way to that we can protect our own citizens.

We -- I also am on the PCAC and we have heard that Sacramento has referred to this area as the environmental sacrifice zone. And I think that truthfully we could take that a step further and say it's the human sacrifice zone.

But as a person who lives here and is raising a family here, when I get to choose do I want the Port of Los Angeles to run the petroleum fuel aspect of this Port, or do I want the CEC to run it.

Well, on one hand I have a Port that when they do an environmental impact report and they find that there's a significant impact to air quality, they invoke a statement of overriding considerations, and say oh, it's okay, because the

economics are so important.

And then I have the CEC, coming from an area that refers to us as an environmental sacrifice zone.

So, again, as a person who lives here and a person who's looking for leadership and protection from my own state, which is the better choice. I don't see either choice as one that's going to fulfill my needs as a human being living here in an area that used to be considered a utopia.

When I moved here 20 years ago this was beautiful southern California. Now I look at the sky; it's sickening to look at. And I hope you look at it before you leave. You've been in here all day, and I'm kind of sorry for that. I see you're exhausted, and I can understand that. But we don't get to talk to you, so please continue to indulge us.

The Port master plan requires that the Port use the best available technologies. They're not doing that. I think what really needs to happen from you, for us, what we're looking to you for, is to provide leadership and look at ways to alter the behavior so that we can alter the growth

and consumption, instead of having to continue to degrade the area, degrade the air quality, put our country and risk and our state at risk.

We can start to look at ways that actually solve the problem. How do we get people to consume less; how do we get the industry to be more efficient.

There's so much opportunity here, it doesn't make sense to continue to invest. It's that old saying, throwing good money after bad, right. Why are we continuing to do it the wrong way when it's so obvious that we're going the wrong direction.

Thank you.

PRESIDING MEMBER PFANNENSTIEL: Thank you for being here, Ms. Woodfield.

Bry Myown.

MS. MYOWN: Thank you. My name is Bry Myown. I'm a Long Beach resident. I'm here representing Long Beach Citizens for Utility Reform and Californians for Renewable Energy, Inc.

We were the Ninth Circuit Appellant challenging federal preemption on liquified natural gas siting authority. We owe you an enormous thanks for your response to the draft EIR

on the Long Beach LNG siting project.

And we note certain analogies to other globalized energy infrastructure, and urge you to act similarly now.

I want to say personally that I know you've heard a lot of our frustrations this afternoon. And I'm sure you sympathize and wring your hands with us, but probably wonder how a lot of what you've heard is within your purview. I'm going to try to restrict myself to what I believe is within your purview, and point out how perhaps some of what you've heard is. If for no other reason than that this document, when adopted, will, at the very least, be the reference that informs decisionmakers that will rule on all of what you've heard discussed by the public today.

CARE recognizes that the Commission has historically played a key role in assuring price and supply reliability of domestic and imported hydrocarbons; and more recently, with quantifying air emission impacts.

CARE also recognizes that history has changed many of our assumptions about hydrocarbon pricing availability and impacts, no more so than at the present time. And we believe your mission

and your methodology must change accordingly.

With reference to price, we have learned that hydrocarbons carry hidden costs. These arguably include military spending, and certainly include transportation and tariff subsidies, transportation infrastructure and repair spending, downstream environmental cleanup and health care costs, lost economic opportunities for California's renewable industry, and the risk management function, should we endure a natural disaster, industrial accident or attack.

Nongovernmental and nonindustry organizations have done enormous research on the full cost accounting associated with hydrocarbon use. And it is unfair, unrealistic and inadequate that decisionmakers might be informed by a document that purports to address price per barrel, which I think I heard one of you say this morning, was a crystal ball anyway.

We need a full cost accounting of all of the other measures, and all of the other items I have just noted, if this document is to purport to advise decisionmakers about the potential future that we are facing.

With reference to supply, hydrocarbons

ar a finite resource. And under any scenario when you are planning you are planning for growth. Now certainly increased capacity and even hoarding may be a temporary solution to peak oil, but a very temporary one. Simply put, you cannot plan for infinite growth of a finite resource. That is an impossibility.

Policymakers must address peak oil, and to do so you must inform them by providing an array of demand variables that is much broader than what this document contemplates. And specifically, you must address a scenario that includes greater incentivization of nonhydrocarbon fuels, also incentivization of demand reduction and even mandated reduced consumption and aggressive mandated reduced consumption.

You know that we, in southern California, are facing that now with our water usage. And we are being told what hours we can water our land. We will adopt more severe measures and we will pay more dearly for it.

Our policymakers need to be informed in a similar way by what options they must begin to contemplate to assure our future price and supply reliability.

With reference to emissions, as dear as our health costs are here, we have learned that climate change is the most serious consequence. And it, too, requires a full life cycle accounting. By that I mean that global warming is a global trade problem, and it cannot be addressed by outsourcing emissions.

A full lifecycle GHG inventory should present an accounting that would include the extraction, processing, ocean, pipeline and truck transport, refining and end-consumer use. As you know, such an accounting was performed and presented to your sister agencies with reference to the BHP Billiton project. And was a key reason why it was rejected, and why different plans are being made.

You took the lead on LNG in Long Beach, and we ask you to follow your sisters organizations lead in that respect if you hope to address the greenhouse gas issue. Because what happens in our air basin is not the determinant of what will happen in our biosphere. But what we enable in the Ports of San Pedro Bay probably is. And in that light, a full life cycle accounting must include the extraction, manufacturing and

full transportation and waste disposal emissions associated with any goods that will be moved by any of the fuels for which you are projecting demand.

Finally, an emission inventory should address consistency with the San Pedro Bay Ports clean air action plans. We're told that these plans are the be-all and end-all and the Ports ar cleaning up our air. And yet it seems that the first building projects in the pipeline are the marine terminals for additional emission-producing fuels. Seems to be a bit of a contradiction.

The downstream use of those fuels, be it in our air basin or in Arizona's, must be reconciled to the projections of the cap. As you know, the caps will probably be reconciled with state bond measure spending and container fee spending. They almost have the status of a legal document. They are referenced within the AQMD that has just been adopted. They will probably become a part of the SIP. So we need to see how adding more fuel to the fire will impact us.

So, for all these reasons CARE requests that the IEPR hearing process should be a truly open, evidentiary hearing process, where all of

your assumptions are publicly disclosed, documented and open to expert public challenge.

Additionally, CARE notes that the IEPR will be used for both Port and municipal land use planning of marine terminal pipeline and refinery land use projects. Indeed, the draft report makes clear that your forecasts will be the rationale for a host of land use projects that collectively amount to one large segmented land use.

As such, CARE requests that the IEPR, and incidentally, your EAP, should be made subject to the provisions of the California Environmental Quality Act. The plan, itself, will be the rationale for lang use; and should be subject to land use planning standards.

Along those lines we note that the San Pedro Bay area is already home to many marine import pipeline tankfarm, and refinery installations that have been allowed to intrude into neighborhoods, or around which conversely neighborhoods infill has been allowed.

Current plans for the Port of Los Angeles' Terminal Island planned in Long Beach's inner harbor plan seek to increase the number of such projects closer to residential populations.

As you well now, and as many people have said today, and as you said in the draft EIR in the Long Beach LNG import project, there are many public safety consequences that are associated with a large-scale storage of hydrocarbons in such an environmentally unsafe and target-rich area.

And I'd urge you to go back and read what you said in that D-EIR because as the basis in rationale for future land use planning, the IEPR cannot be considered complete if it does not address the public safety and potential risk management and lost consequences of increased hydrocarbon storage here.

If for no other reason, then for the devastation that California's energy market, national trade markets would occur. We would like to think that our public safety counted.

But in keeping with your charge of assuring supply reliability, we need for our policymakers to be fully informed on this issue. And you have the data because you put it in the Long Beach D-EIR response.

So, CARE asks you to address this cumulative issue in the IEPR in accordance with the provision of CEQA, and the Port's master plan

requirements, and with the requirements handed down last year by the U.S. Supreme Court in Diablo Canyon.

So, in sum, we seek an open and evidentiary hearing and CEQA process for this plan. We want a full cost accounting of your hydrocarbon price assumptions. A full life cycle greenhouse gas emissions inventory on the global scale that global warming demands. A reconciliation with the caps. And demand variables that reflect a range of options that will help our policymakers and legislators plan for a future in which we will not be able to bring oil here, no matter how much you may want to.

Thank you.

PRESIDING MEMBER PFANNENSTIEL: Thank you for your comments.

MS. WHITE: If I may, Chairman. Just to provide some additional information for those that may not have been here this morning.

The Energy Commission is posting all of the information related with the assessments being done as part of the Integrated Energy Policy Report proceeding on our website. This includes that work that is being done in response to AB-

1007, which includes the full fuel cycle assessment that the Commission adopted on June 27th, which provided a life cycle cost analysis and a life cycle emissions assessment associated with various fuel options.

All of that information, as well as input assumptions and background information on this particular transportation assessment are all available for public review. And I've had our WebX folks provide the home page information featuring the hot button for our Integrated Energy Policy Report site, so it's easy for folks to find.

PRESIDING MEMBER PFANNENSTIEL: Thanks, Lorraine. Regina Taylor.

MS. TAYLOR: Bear with me, I'll be less than a minute, okay. My name is Regina Taylor and I live in Long Beach.

And the comment I was going to make, I want you to know that Bry stole it from me.

(Laughter.)

MS. TAYLOR: The report deals with, like so many reports do, never-ending projections of more and more growth, the linear growth. And we all know that doesn't occur. And I believe that

regardless of how much may we want oil and alternative fuels -- and alternative fuels will never replace the oil that we use now in terms of the energy we get from it and all we can do with it -- that we will have to learn within certain constraints. And maybe to the point of rationing.

I don't know the books you read, but I read things like James Howard Kuntsler and "The Long Emergency" (phonetic; Matthew Simmons of Simmons International, "Twilight in the Desert". I waded through the whole thing.

The outlook is not good over the next five years. And I think that the report will be seriously inadequate if it doesn't include some scenario that says that we may not get even the minimum that we want, or that you think we're going to need -- we all thing we're going to need. Okay. And I won't be able to come to meetings like this because it's too far, it's ten miles.

And I know the decisionmakers hate to hear anything that has to do with economic contraction, or we may not get what we want. But if they don't hear it from you, they're sure not listening to me. Okay.

And I would hope we would not decide to

build an infrastructure here based on oil, an infrastructure that has no real future.

Another thing, just has to do with process and not with the topic. We came here this morning, but we didn't know when public comment was. So, I came from Long Beach; I schlepped back to Long Beach; and I came back again this afternoon. I'm sure the global warming emissions went way up because I had to do that. And there was a broken truck on the Vincent Thomas Bridge, as well.

So I would appreciate it in the future if the agenda could be put online and we will know what time the public comment is, okay?

PRESIDING MEMBER GEESMAN: It is --

MS. TAYLOR: Is it? Oh, okay, how did I miss it?

MS. MYOWN: It's not with the downloadable documents for this meeting. There was a notice --

MS. TAYLOR: We looked.

MS. MYOWN: -- but there was not an agenda for --

PRESIDING MEMBER PFANNENSTIEL: Well, we do try to get the agendas online --

MS. TAYLOR: Okay.

PRESIDING MEMBER PFANNENSTIEL: -- as soon as they are available.

MS. TAYLOR: Okay, fine, because we would have just --

PRESIDING MEMBER PFANNENSTIEL: -- apologize for --

MS. TAYLOR: All right.

PRESIDING MEMBER PFANNENSTIEL: Actually if we had known this morning that you were here and had to schlep back, we certainly would have made allowances. I'm sorry we didn't know that.

MS. MYOWN: We're not saying that we don't appreciate what has happened all day, but we'd rather watch it online --

PRESIDING MEMBER PFANNENSTIEL: No, I don't blame you.

MS. MYOWN: And read your documents.

MS. TAYLOR: Okay, thank you very much for being here. And listening.

PRESIDING MEMBER PFANNENSTIEL: Well, thank you for being here. We do appreciate your time.

MS. TAYLOR: And going overtime.

PRESIDING MEMBER PFANNENSTIEL: Thank

you. Mike Eaves.

MR. EAVES: Good afternoon, Commissioners. My name is Mike Eaves with the California Natural Gas Vehicle Coalition. I just wanted to say we appreciate your time down here. I debated whether it was easier for me to get to Sacramento or get to the Port here this morning, but it was about a tie.

We have probably many many pages of individual comments; we'll submit those in writing. But a couple of things I guess I felt compelled to come here and talk about.

One, it's not obvious that the transportation energy forecast report that we've been discussing today has been done by the same agency that defined the urgency of adopting the 20 and 30 percent alternative fuel goal for California.

If alternative fuels are to displace 20 or 30 percent of petroleum demand, it's incredible that there isn't a placekeeper in this report for that.

I know in other IEPRs way back when we were looking at energy efficiencies, you know, trying to double the energy efficiencies, there

were placekeepers in there. We didn't know if we could do that, but there were still placekeepers in there that indicated what would happen if we did achieve those objectives.

And now instead of those doubling of fuel economy, now we've gone to the 30 percent greenhouse gas reductions. Those are reflected in there.

So I think it's appropriate, even though the AB-1007 process isn't complete, I think there should be a placekeeper there.

Another issue that we've all had, and we had enough discussions, and I sense some frustration, even from the Commissioner, is the staff's adoption of the EIA forecast for modeling purposes.

And I can appreciate that what we're not trying to do is predict what the prices are, but there's certainly, from a policy direction of the state, a need for somebody to predict where prices might be going.

I was kind of interested in Tuesday's Wall Street Journal. There was an article about IEA's projection, talking about the coming energy crunch within the next five years where supply is

going -- and demand is going up 3 percent a year, and supply is going down. And they talked about the price ramifications of that.

I think, you know, we have always supported that the Commission should use the EIA's high-price forecast as a benchmark. And I think it's important to do so because when this report is said and done, when the IEPR is said and done, when the 1007 report is said and done, policymakers are going to take that and try to run with that.

And everybody will want to know what the cost to the State of California is going to be. And it's going to be necessary to have real price forecasts as much as we hate to predict price forecasts. But I think that's, you know, the lower price forecasts just don't fly in the face of what we're seeing in the marketplace and in the other assessments of what's going to happen in the future.

So, thank you for your time today. And thank you for staying late.

PRESIDING MEMBER PFANNENSTIEL: Thank you for you comments. That's the blue cards that I have for people who have indicated that they'd

like to speak.

I think that we should conclude. I note that public comment, written comments would be appreciated. And the date given in the notice is July 23rd for written comments, is that correct? Yeah.

Okay, so people, whether you spoke today and would still like to submit written comments, please feel free to do so. We will certainly read them and incorporate them into the docket, the body of information that we'll work off of for the IEPR report.

Is there any other information that we should bring to the attention --

MR. MARQUEZ: Thirty days (inaudible).

PRESIDING MEMBER PFANNENSTIEL: I'm sorry, we can't hear. The request was for a 30-day extension. I can express that a 30-day extension would probably not get the comments into the first drafts of the IEPR that we're currently working on.

PRESIDING MEMBER GEESMAN: But we're always going to take a look at any comments filed. We have multiple points along the way before we adopt a final report later this fall to take your

viewpoint into account.

So if you're unable to meet the deadline posed for this particular segment of our consideration -- Madam Chair, I think people ought to be encouraged to file whatever comments they can whenever they can.

PRESIDING MEMBER PFANNENSTIEL: Absolutely. Always the case. And we would appreciate them.

Thank you all for being here. It has really made a big difference for us to get the input. I know that it's a long day. I'm sorry for those who had to sit through the whole day of it, if it didn't really apply to your issues. But it was very very helpful to us.

So, thank you all, and with that, we'll be adjourned.

(Whereupon, at 5:10 p.m., the Joint Committee Workshop was adjourned.)

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CERTIFICATE OF REPORTER

I, TROY RAY, an Electronic Reporter, do hereby certify that I am a disinterested person herein; that I recorded the foregoing California Energy Commission Joint Committee Workshop; that it was thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said workshop, nor in any way interested in outcome of said workshop.

IN WITNESS WHEREOF, I have hereunto set my hand this 21st day of August, 2007.